

Our pipeline business has shown a strong record of performance, stability and growth through strategic positioning and by providing an integrated package of services to crude oil producers and shippers.



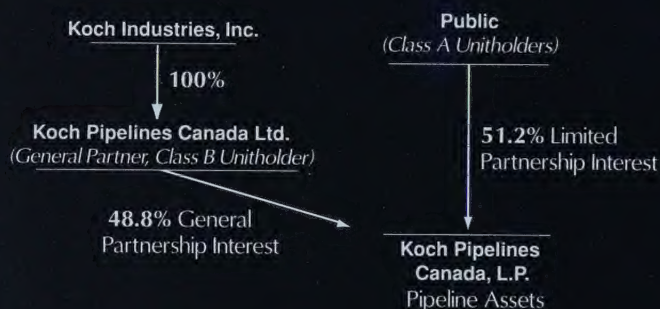
an established pipeline business with  
growth opportunities ...

**K KOCH**   
PIPELINES CANADA, L.P.

# partnership profile

**The Koch Pipelines Canada, Limited Partnership** was established to acquire four wholly owned Canadian pipeline assets operated by various subsidiaries of Koch Industries, Inc. These pipeline assets are the Bow River Pipeline System, the Koch Alberta Pipeline System, and the Koch Valley Pipeline System in Alberta and the Mid-Saskatchewan Pipeline System in Saskatchewan. Combined, these systems comprise one of the largest crude oil feeder pipeline businesses in Canada. These systems total approximately 2,400 miles in length, and had an average throughput in 1997 of 306,400 barrels per day of crude oil and condensate.

The General Partner of Koch Pipelines Canada, L.P. is Koch Pipelines Canada Ltd., an indirectly wholly owned subsidiary of Koch Industries, Inc.



- Limited partnership Class A units issued: 37,500,000  
Trade on TSE as instalment receipts, symbol KPC.IR
- General partnership Class B units issued: 35,700,000

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Koch Industries, Inc. is the second largest privately held company in the United States.

There are over 500 Koch employees across Canada, approximately 170 of whom are located in the Calgary office. Koch has grown to become the largest exporter, as well as one of the largest refiners, of Canadian crude oil. In addition, Koch's Canadian activities include oil and gas exploration and production, trading, capital services and crude oil trucking.

Since its entry into the Canadian energy transportation industry in 1959, Koch has continuously grown its pipeline business by providing an integrated package of services to crude oil producers and shippers through experienced management and solid core assets.

## Financial and Operating Highlights Table

### Financial

| (\$thousands except per unit amounts)              | 1998 <sup>(1)</sup> | 1997 <sup>(2)</sup> | 1997 <sup>(3)</sup> |
|--|---------------------|---------------------|---------------------|
| Revenue  | \$ 94,459           | \$ 8,437            |                     |
| Operating expenses                                 | (22,114)            | (1,949)             |                     |
| General and administrative expenses                | (4,745)             | (501)               |                     |
| Management fee                                     | (1,370)             | (120)               |                     |
| Income from operations                             | 66,230              | 5,867               |                     |
| Capital expenditures                               | (14,791)            | (4,795)             |                     |
| Capital expenditures funded by Koch                | 12,974              | 4,766               |                     |
| Distributable cash from operations                 | 64,413              | 5,124               |                     |
| Distributable cash per Class A unit <sup>(4)</sup> | \$ 0.88             | \$ 0.07             |                     |

### Operational

Throughput (thousands of barrels per day)

|                                  |       |       |       |
|----------------------------------|-------|-------|-------|
| Bow River Pipeline System        | 206.0 | 201.8 | 192.6 |
| Koch Alberta Pipeline System     | 62.7  | 67.5  | 63.5  |
| Mid-Saskatchewan Pipeline System | 46.7  | 48.5  | 43.1  |
| Koch Valley Pipeline System      | 6.7   | 7.8   | 7.2   |
| Total Throughput                 | 322.1 | 325.6 | 306.4 |

(1) Per the prospectus for the Koch Pipelines Canada, L.P. Initial Public Offering dated November 18, 1997

(2) November 27, 1997 through December 31, 1997

(3) Full year 1997 throughput volumes for illustration only

(4) Anticipated allocation of taxable income for 1998: 60 percent of \$0.88 per unit

## Achievements

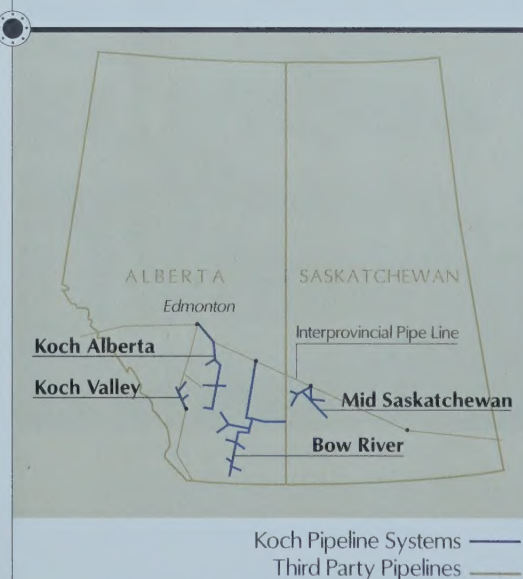
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Koch Pipelines Canada, L.P. launched on November 27, 1997

▼  
Raised \$375 million aggregate proceeds in successful IPO through the sale of 37,500,000 Class A units at \$10.00 per unit  
- initial payment of six dollars  
- final payment of four dollars due November 27, 1998

▼  
Achieved an average throughput of 306,400 barrels per day in 1997

▼  
Made a distribution of \$0.07 per unit for the period November 27 to December 31, 1997

▼  
Made a distribution of \$0.22 per unit for the first quarter of 1998



November 27, 1997 was a landmark day for those of us affiliated with Koch's pipeline business in Canada. It marked the successful closing of the Koch Pipelines Canada, L.P. initial public offering and our first day of trading on The Toronto Stock Exchange.



## stability

Historically, Koch has grown its Canadian pipeline business by providing an integrated package of services to crude oil producers and shippers.

**As President and Chief Executive Officer of Koch Pipelines Canada Ltd., and as a fellow unitholder of Koch Pipelines Canada, L.P., I am pleased to present our first annual report and to welcome our new unitholders to the Partnership. In this address, I would like to comment on our successful initial public offering, review the key operating and financial performance highlights from 1997 and share some thoughts on the Partnership's challenges and areas of focus for 1998.**

November 27, 1997 was a landmark day for those of us affiliated with Koch's pipeline business in Canada. It marked the successful closing of the Koch Pipelines Canada, L.P. initial public offering and our first day of trading on The Toronto Stock Exchange. It was also the date that the Canadian investing public became partners in the business we had grown into one of the largest crude oil and condensate feeder pipeline businesses in Canada.

The Partnership was established to acquire the four wholly owned Canadian pipeline assets operated by various subsidiaries of Koch Industries, Inc. The IPO transaction raised \$375 million through the sale of 37,500,000 Class A Units, giving the public a limited partnership interest of approximately 51.2 percent. Koch Pipelines Canada Ltd., the General Partner and an indirect wholly owned subsidiary of Koch Industries, Inc., holds the remaining interest of approximately 48.8 percent.

While on the IPO road show last fall, we learned that many Canadians are not very familiar with Koch Industries, Inc. Accordingly, I would like to provide a general overview of the corporate parent of the General Partner, and describe Koch's energy-related interests in Canada.

Headquartered in Wichita, Kansas, Koch Industries, Inc. is active in virtually all phases of the oil and gas industry. Koch operates one of North America's largest liquids pipeline systems which includes more than 31 crude oil, refined products, natural

gas liquids, ammonia and natural gas pipeline systems in Canada and the United States. Koch is also involved in crude oil refining, chemicals, chemical technology, asphalt products, energy services, minerals, capital services and agriculture.

Koch has grown rapidly in recent decades, from U.S. \$177 million in sales in 1967 to more than U.S. \$35 billion today, to become the second largest privately owned company in the United States. If it were a publicly traded company, the Koch network of companies would rank among the 25 largest North American corporations. Koch Pipelines Canada, L.P. holds the distinction of being the first major business that Koch has ever taken public.

In Canada, Koch is directly involved in crude oil exploration and production, oil and gas trading, and providing risk management services to the energy sector. In fact, Koch has grown to become the largest exporter and one of the largest refiners of Canadian crude oil.

Historically, Koch has grown its Canadian pipeline business by providing an integrated package of services to crude oil producers and shippers. I fully expect that the Partnership will continue to benefit from the market knowledge, operating expertise and customer

relationships Koch has developed over the past 39 years in acquiring, operating and expanding its Canadian crude oil pipeline business.

In terms of performance, 1997 was a very strong year. System receipts on the Partnership's four pipelines - Bow River, Koch Alberta, Mid-Saskatchewan, and Koch Valley - averaged approximately 306,400 barrels per day, a record year for Koch's involvement in these systems. This represents an increase of approximately 3,000 barrels per day over system-wide throughputs achieved in 1996.

The accompanying financial statements of Koch Pipelines Canada, L.P. cover the relatively brief period from formation of the Partnership on November 27, 1997 through December 31, 1997. During this period, the Partnership realized revenues of \$8.4 million and declared a cash distribution of \$5.1 million (\$0.07 per unit) to unitholders of record as of December 31, 1997. This distribution was made in January, 1998, and approximates one-twelfth of the 1998 distribution forecast noted in the Koch Pipelines Canada, L.P. final prospectus.

Looking forward to 1998, our challenge will be to sustain the volume and revenue growth momentum we gained at the end of

last year. At the same time, we want to ensure safe, reliable pipeline operations and further advance our pipeline maintenance and integrity programs.

During the first quarter of 1998, our attention was heavily focused on completing a series of capital projects linked to growth initiatives on our existing systems. At the time of the closing of the Koch Pipelines Canada, L.P. initial public offering, we outlined an aggressive capital expenditure program involving a large capacity expansion project on the Bow River mainline pipeline system, crude oil gathering connections to several new battery locations, and various equipment upgrade projects to accommodate increasing volumes at current facilities. The total capital outlay for these projects was estimated to be \$20.7 million, of which approximately \$13.0 million is forecast to be expended in 1998. A subsidiary of Koch Industries, not the Partnership, will fund the expenditures for these particular projects. I am pleased to report that, to date, the majority of these capital projects are either at or near completion.

Also in 1998, we will look to increase Partnership value by pursuing new construction and acquisition opportunities outside the service areas of the Partnership's four existing pipeline assets. A region that is of particular interest is the oil sands corridor that extends from the Athabasca area in north central Alberta, through the Cold Lake region, to the crude oil injection hub on the Interprovincial Pipe Line system at Hardisty, Alberta. Crude oil production from new development projects within this corridor is expected to increase significantly. This, in turn, will give rise to new investment opportunities in the transportation infrastructure needed to move incremental crude oil production to market.

Today the western Canadian oil industry is adjusting to a sharp decline in crude oil prices that recently saw the price of benchmark West Texas Intermediate sweet crude drop to a ten year low. Although prices have rebounded somewhat in recent weeks, the near-term outlook remains highly uncertain. The management of Koch Pipelines Canada Ltd. recognizes that a prolonged low price environment could cause some oil producers to curtail low-margin production and/or postpone further development activity. However, the following observations should also be noted:

▼  
to date we have not observed any material shut-in of crude oil production in the service areas of the Partnership's pipelines due to well head price considerations;

▼  
heavy oil streams are more susceptible to shut-in than medium or light oil streams due to the combined effect of today's wide light-to-heavy oil price differentials and the current low overall price environment. Although some of the Partnership's pipeline systems transport heavy oil streams, there is a range of quality and value of heavy oil. Only a relatively low percentage (approximately ten percent) of the oil delivered from the Partnership's pipelines is marketed as the lower quality and lower priced heavy oil;

▼  
the average throughput volume on the Partnership's pipelines during the first quarter of 1998 was higher than average receipts in 1997. Our revenue per barrel has also increased due to a toll increase associated with the mainline expansion work recently completed on the Bow River pipeline and other growth initiatives.

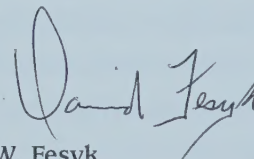
The Partnership's management will strive to mitigate possible adverse impacts on cash distributions by maintaining a strong focus on our operating cost structure while meeting the high level of service our producer and shipper customers have come to expect. We also recognize that the current industry environment may yield acquisition and growth opportunities that we must be prepared to identify, evaluate and execute on a timely basis.

We also plan to make investor relations a key priority in 1998. Our objective is to create an investor relations capability that is widely recognized for its effectiveness and responsiveness.

A final focus for 1998 will involve activities that are embedded as part of our culture at Koch. We will continuously challenge ourselves to find innovative ways to create value for our customers, and enhance value in the communities where we operate. In doing so, we will apply market-based principles to help put our ideas into action.

In closing, I would like to thank you for your interest in Koch Pipelines Canada, L.P. For those of you that have been with us since we went public last November, we genuinely appreciate your support. For those of you considering a new investment opportunity, I invite you to participate in our impressive record of earnings stability and growth. And to our customers, employees and directors, I want to thank each of you for helping make 1997 a very successful and memorable year.

*On behalf of Management and the Board of Directors*



**David W. Fesyk**

*President and Chief Executive Officer*

*April 23, 1998*



The Partnership's pipeline assets consist of four, 100 percent owned and operated feeder pipeline systems.



## established

These pipelines total approximately 2,400 miles in length and throughput in 1997 averaged 306,400 barrels per day. They currently serve more than 150 producers and over 40 shippers with connections to more than 230 batteries and 18 truck terminals.

## Feeder Pipeline Overview

Feeder pipeline systems such as the Partnership's assets gather crude oil directly from producer-owned production treating facilities (commonly known as 'batteries'), truck terminals and other interconnecting gathering pipelines and deliver it to either regional refiners or to major export pipelines.

Feeder pipelines are dependent upon and grow and evolve in response to the level of production, exploration and development activity in the region in which they are located. The Partnership will continue to seek out profitable new opportunities to connect additional batteries to these pipelines. Feeder pipelines in western Canada, including the Partnership's assets, typically have not been regulated from a perspective of allowed rates of return. Management intends to follow the approach it has used successfully in the past: negotiating tolls with its customers in response to changing customer needs and alternatives.

## The Pipeline Assets

The Partnership's pipeline assets consist of four 100 percent owned and operated feeder pipeline systems: the Bow River Pipeline System, the Koch Alberta Pipeline System, and the Koch Valley Pipeline System in Alberta and the Mid-Saskatchewan Pipeline System in Saskatchewan. These pipelines total approximately 2,400 miles in length, and throughput in 1997 averaged 306,400 barrels per day. They currently serve more than 150 producers and over 40 shippers with connections to more than 230 batteries and 18 truck terminals. No single producer accounts for more than about 15 percent of the total throughput volume.

### 1997 Average Daily Throughput by Pipeline System

| Pipeline System                  | Average<br>Daily Throughput<br>(Mbbls/d) | Percentage of<br>Total Throughput |
|----------------------------------|--|-----------------------------------|
| Bow River Pipeline System        | 192.6                                    | 63%                               |
| Koch Alberta Pipeline System     | 63.5                                     | 21%                               |
| Mid-Saskatchewan Pipeline System | 43.1                                     | 14%                               |
| Koch Valley Pipeline System      | 7.2                                      | 2%                                |
| Total                            | 306.4                                    | 100%                              |

## bow river pipeline system

The Bow River Pipeline System was built in 1964. The system carries two streams of crude oil: a blend of heavy and medium crude oil, and a light sour crude oil. All of the light sour crude oil and approximately two-thirds of the Bow River 'A' crude oil is transported north to the Gibson terminal at Hardisty, Alberta for delivery to either the Interprovincial Pipe Line ('IPL') or the Express Pipeline.

Approximately one-third of the Bow River 'A' crude oil receipts are transported south to the Murphy-owned export pipeline at Milk River, Alberta for delivery to refineries in the United States. The Bow River Pipeline System transported approximately 63 percent of the volumes shipped on the Partnership's pipelines in 1997.

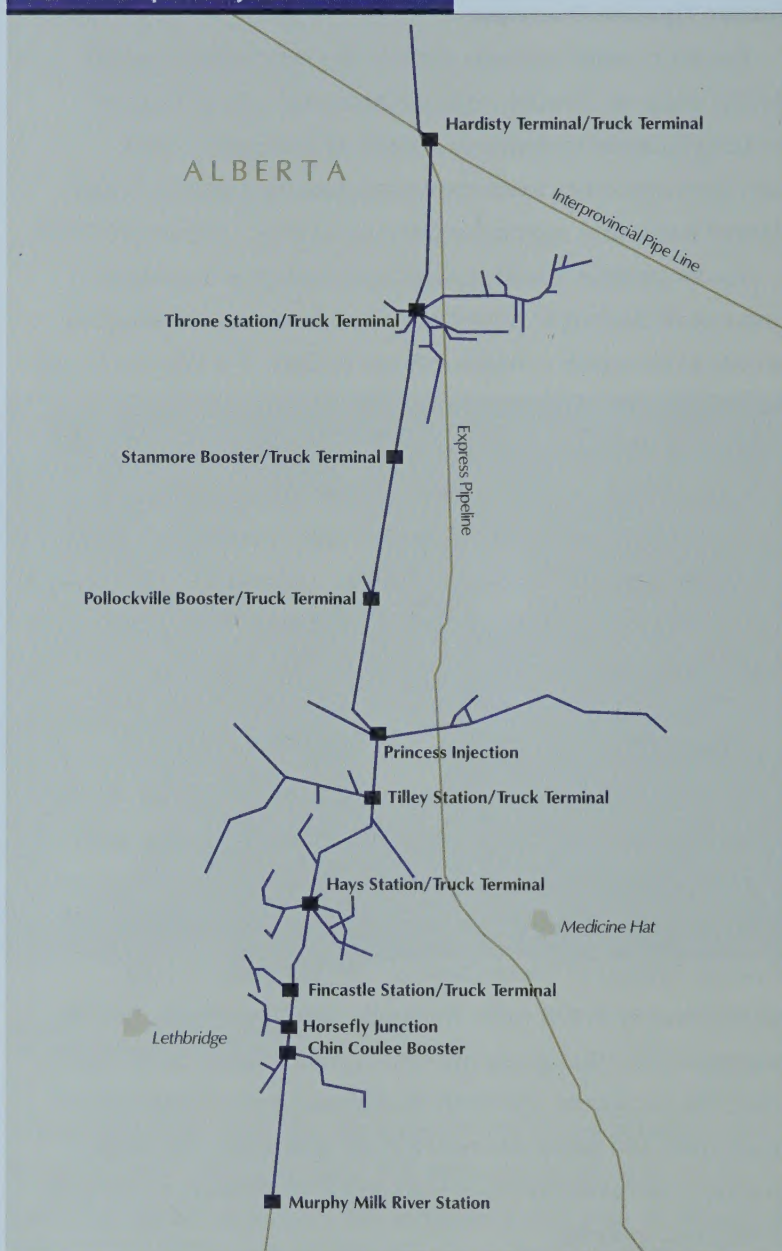
A number of projects were initiated on the Bow River Pipeline System in 1997 that are anticipated to add approximately 20,600 bbls/d of throughput. In November, Koch began construction of 34-miles of 10-inch pipeline between Princess station and Throne station. In addition, pumping capacity was increased at four existing stations from Princess through Throne and a new boost station was added between Throne and Hardisty. This pipeline construction, to be completed in May 1998, will provide the Partnership with at least three pipelines in parallel between Tilley and Hardisty providing

# bow river pipeline system

greater flexibility than a single, larger diameter pipeline. Construction also began on seven new battery connections, including the consolidation of three existing connections into one larger battery connection.

The corridor served by the Bow River Pipeline System continues to be an attractive area for a number of key producers as a result of significant land holdings they have in the area and relatively low costs to explore, drill and produce. Although the Bow River 'A' crude oil stream contains heavy oil components, it realizes a higher price than other typical heavy oil blends due to its unique composition and attractiveness to a broad group of end user refineries. Accordingly, we anticipate ongoing development in this area even in a lower oil price environment. From these developments we expect opportunities to make new gathering connections and provide capacity upgrades at existing connections.

## Bow River Pipeline System



— Bow River Pipeline System  
— Third Party Pipelines  
■ Terminal

## bow river pipeline system at-a-glance

**Type:** crude oil feeder pipeline and gathering system

**Length:** 1,525 miles (2,450 km)

**Area:** southeastern Alberta

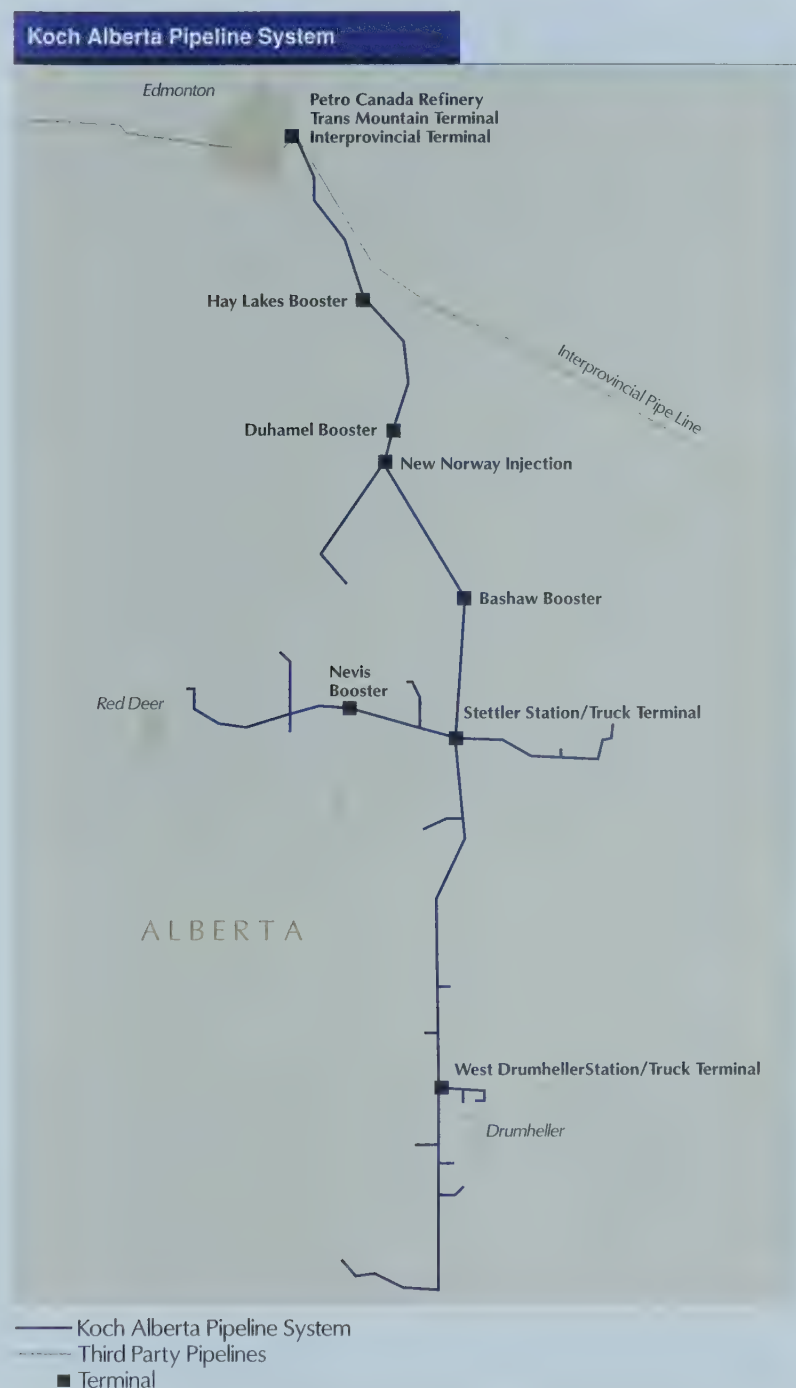
**Delivery Point:** - IPL system and Express Pipeline at Hardisty, Alberta  
- Murphy Pipeline at Milk River, Alberta

**Capacity:** 239,600 bbls/d

**1997 Throughput:** 192,600 bbls/d of Bow River 'A' and light sour crude

## Average Daily Throughput

| (thousands of barrels per day) | 1998F | 1997         | 1996  | 1995  | 1994  |
|--------------------------------|-------|--------------|-------|-------|-------|
| Bow River 'A' Crude Oil        | 181.1 | <b>165.2</b> | 166.0 | 157.4 | 132.1 |
| Light Sour Crude Oil           | 24.9  | <b>27.4</b>  | 31.8  | 34.2  | 37.5  |
| Total                          | 206.0 | <b>192.6</b> | 197.8 | 191.6 | 169.6 |



## Average Daily Throughput

| (thousands of barrels per day) | 1998F | 1997 | 1996 | 1995 | 1994 |
|--------------------------------|-------|------|------|------|------|
| Light Sour Crude Oil           | 59.2  | 60.0 | 62.6 | 64.2 | 58.6 |
| Light Sweet Crude Oil          | 3.5   | 3.5  | 4.1  | 1.8  | 2.7  |
| Total                          | 62.7  | 63.5 | 66.7 | 66.0 | 61.3 |

The Koch Alberta Pipeline System was constructed in the early 1950s to serve oilfields between Drumheller, Alberta and Stettler, Alberta, and was acquired by Koch in 1991. The system transports light crude oil from south central Alberta north to a refinery in Edmonton and to the IPL and Trans Mountain pipelines at Edmonton. The Koch Alberta Pipeline System transported approximately 21 percent of the volumes shipped on the Partnership's pipelines in 1997.

A number of key producers who have significant land holdings in the corridor served by the Koch Alberta Pipeline System continue to explore and drill for new reserves. The Partnership intends to aggressively pursue new gathering opportunities which arise within the service area of this system.

## koch alberta pipeline system at-a-glance

**Type:** crude oil feeder pipeline and gathering system

**Length:** 390 miles (627.5 km)

**Area:** south central Alberta

**Delivery Point:** - IPL system and Trans Mountain Pipeline at Edmonton, Alberta  
- a refinery in Edmonton  
- Amoco Rangeland Pipeline at Joffre, Alberta

**Capacity:** 73,900 bbls/d

**1997 Throughput:** 63,500 bbls/d of light crude

# mid-saskatchewan pipeline system

The Mid-Saskatchewan Pipeline System was constructed in the early 1950s to serve oilfields in the Coleville and Smiley areas of Saskatchewan, and was acquired by Koch in 1973. The system gathers and transports crude oil from fields near Kindersley and Kerrobert, Saskatchewan to the IPL system at Kerrobert. The Mid-Saskatchewan Pipeline System transported approximately 14 percent of the volumes shipped on the Partnership's pipelines in 1997.



Recent heavy oil discoveries have increased drilling activity in the area of this system. Although the heavy oil blend transported on this system is more susceptible to reduced well head pricing, key producers in this area continue to produce at increasing levels, and significant new reserves have been identified. However, the pace at which these reserves will be brought on stream is uncertain in the current low price environment. This system is well positioned to participate in future development.

## Average Daily Throughput

| (thousands of barrels per day) | 1998F | 1997 | 1996 | 1995 | 1994 |
|--------------------------------|-------|------|------|------|------|
| Heavy Blend Crude Oil          | 33.5  | 29.7 | 18.8 | 13.4 | 9.8  |
| Light Sweet Crude Oil          | 13.2  | 13.4 | 13.3 | 13.9 | 13.6 |
| Total                          | 46.7  | 43.1 | 32.1 | 27.3 | 23.4 |

## mid-saskatchewan pipeline system

### at-a-glance

**Type:** crude oil feeder pipeline and gathering system

**Length:** 334 miles (537 km)

**Area:** west central Saskatchewan

**Delivery Point:** IPL system at Kerrobert, Saskatchewan

**Capacity:** 63,200 bbls/d

**1997 Throughput:** 43,100 bbls/d of heavy blend and light sweet crude oil



This system transports condensate from gas plants at Waterton, Jumping Pound and Wildcat Hills to the Federated Cremona Pipeline at Madden, all in southwestern Alberta. The Koch Valley Pipeline System transported approximately two percent of the volumes shipped on the Partnership's pipelines in 1997.

## Average Daily Throughput

| (thousands of barrels per day) | 1998F | 1997 | 1996 | 1995 | 1994 |
|--------------------------------|-------|------|------|------|------|
| Condensate                     | 6.7   | 7.2  | 6.4  | 6.1  | 6.7  |

## koch valley pipeline system at-a-glance

**Type:** condensate feeder pipeline

**Length:** 151 miles (243 km)

**Area:** southwestern Alberta

**Delivery Point:** Federated Cremona Pipeline at Madden, Alberta

**Capacity:** 12,100 bbls/d

**1997 Throughput:** 7,200 bbls/d of condensate

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The contract with the producer owning over 90 percent of the volumes on this system comes due for renewal at the end of October 1998. The Partnership expects that this contract will be extended at more favourable terms to the Partnership than the initial contract.

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There have been several recent new gas discoveries in the areas near the three plants served by this pipeline.

## 1998 Objectives

### Safe, Efficient and Reliable Operations

The Partnership's objective is to continue to provide safe, environmentally responsible, efficient and reliable crude oil transportation for its customers. It will achieve this by continuing its efforts to identify and eliminate risks of leaks or equipment failures. For example, Koch, not the Partnership, is continuing a multi-year program to internally inspect and repair, as necessary, many key segments of these pipelines. The Partnership will continue to focus on optimizing operating costs across all areas of these systems with a vision of becoming the long-term lowest cost pipeline operator in the western Canadian basin.

### Revenue Growth Opportunities

As the General Partner, Koch Pipelines Canada Ltd. intends to aggressively pursue new crude oil gathering opportunities within the service areas of the four pipeline assets owned by the Partnership. We expect to complete new field battery connections and capacity upgrade projects to attract incremental volume to the systems. The Partnership will also continuously review the competitiveness of our market-based pipeline tolls and truck terminal fees. Additionally, the Partnership will look to make attractive, profitable investments in transportation infrastructure outside the service areas of the existing assets. These investments may take the form of asset acquisitions or grass-root construction projects in regions with strong growth potential.

### Creative Transportation Solutions

We recognize that to be a successful pipeline business, the Partnership must provide creative transportation solutions to our customers. This will require continued emphasis on understanding and meeting customer needs with respect to capital project execution, oil movement and batch scheduling, storage services, oil quality measures, maintenance planning, and the reporting of operational and accounting information.



THE COMPANY'S PRODUCTION  
are expected to come from  
management's production strategy  
to produce a full year of production  
from all of the production assets  
available.

## outlook

The 1998 forecast contained in the Koch Pipelines Canada L.P. final prospectus dated November 18, 1997 indicated a full year distribution of \$0.88 per unit



## Financial Discussion

The Partnership acquired its pipeline assets on the same date the Partnership became a publicly traded entity. Accordingly, the financial results reported in the attached financial statements are for the period from November 27, 1997 to December 31, 1997.

The forecast results contained in the Partnership's final prospectus are for the calendar year 1998. Accordingly, there are no forecast amounts to compare against the Partnership's 1997 results from operations. Generally, financial results for the period ended December 31, 1997 were positive, and throughputs on the Partnership's systems were strong (325,700 barrels per day), well above the average daily throughputs for 1997 (306,400 barrels per day).

### Revenues

Revenues for the period ended December 31, 1997 totalled \$8.4 million or approximately \$0.74 per barrel of throughput.

### Expenses

Operating expenses for the period ended December 31, 1997 totalled \$1.9 million or approximately \$0.17 per barrel of throughput.

General and administrative expenses for the period ended December 31, 1997 totalled \$0.5 million or approximately \$0.04 per barrel of throughput.

The General Partner earns a management fee equal to 2.0 percent of the Partnership's annual operating cash. For the period from November 27, 1997 to December 31, 1997, management fees amounted to \$120,000.

### Capital and Pipeline Inspection Expenditures

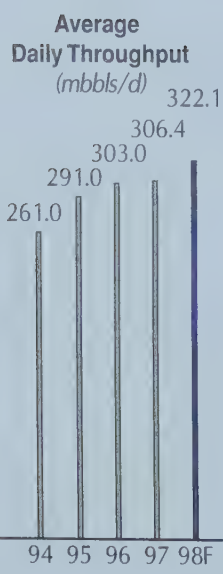
Aggregate capital expenditures of approximately \$20.7 million to be incurred on projects underway or approved at the time of the initial public offering are being funded by Koch, not the Partnership. These capital expenditures are being incurred to increase throughput and capacity and enhance product stream management flexibility.

Also, a pipeline inspection and repair program was underway at the time of the initial public offering, and Koch is funding up to \$10 million of the Partnership's expenses for this program. The Partnership will be responsible for any costs in excess of \$10 million related to this program.

From November 27, 1997 to December 31, 1997, all but \$29,000 of the Partnership's \$4.8 million in capital and pipeline inspection expenditures were funded by Koch.

### Distributable Cash

Distributable cash for the 35 day period from November 27, 1997 to December 31, 1997 was \$5.1 million. A cash distribution of \$0.07 per unit distribution was paid in January 1998. This distribution was roughly proportional to one-twelfth of the \$0.88 per unit



distribution forecast for the calendar year 1998 in the Koch Pipelines Canada, L.P. final prospectus.

The Partnership's net income for the period ended December 31, 1997 was \$1.8 million after considering non-cash items such as depreciation. However, because of the tax depreciation and other tax deduction items, there was no income for tax purposes allocated to partners in 1997. Accordingly, the \$0.07 per unit distribution for 1997 is considered a return of capital, and will reduce the adjusted cost base of each unit for purposes of calculating the capital gain or loss upon the ultimate disposition of the unit.

### **Liquidity and Capital Resources**

As discussed above, capital expenditures for projects approved or underway at the time of the closing of the offering are being funded by Koch and not the Partnership. The aggregate estimated total capital cost of these projects was \$20.7 million, of which \$13 million was expected to be made in 1998. An additional \$1.8 million in maintenance capital spending was forecast to be made by the Partnership in 1998. Future capital expenditures, other than the Koch funded projects mentioned above, will be funded by the Partnership through its revolving credit facility, cash or the issuance of additional units.

### **Outlook**

The Partnership's financial results in 1998 will reflect a full year of operations. The 1998 forecast contained in the Koch Pipelines Canada, L.P. final prospectus dated November 18, 1997 indicated a full year distribution of \$0.88 per unit. This forecast was based on, among other variables, average throughputs in 1998 totalling 322,100 barrels per day. The increases in throughput over 1997 were expected to come from development projects underway by producers in the geographic areas of the Partnership's pipeline systems.

Management has not identified any material shut-ins along the Partnership's systems resulting from the current low oil price environment. The increases in throughput volumes expected from development activity, however, have not occurred as quickly as originally forecast. Management still believes the 1998 forecast distributable cash to be achievable over the remainder of 1998, given lower than expected partnership funded operating costs, and the identification of new projects and throughput that were not identified at the time of the forecast.

The expected income for taxation purposes is expected to be approximately 60 percent of the amount of cash distributions to partners in 1998. The exact amount of income allocated to partners for tax purpose, and the portion of distributions considered a return of capital will depend on several variables, including the performance of the business, amounts of distribution, and amounts of capital expenditure actually incurred during the year.

## Business Risks

Future throughput on the pipelines and replacement of crude oil reserves in their service areas will be dependent upon the success of producers operating in those areas in developing their existing reserve bases and exploring for and developing additional reserves.

Sustained low crude oil prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of marginal wells. The Partnership will be dependent on continuing crude oil exploration and development activity and technological improvements leading to increased recovery rates in order to offset natural declines in crude oil production in areas served by the pipelines. Without such developments, the volumes of crude oil transported through the pipelines will decline over time as reserves are depleted.

West Texas Intermediate (WTI) crude oil price is a benchmark for light crude oils. To the extent that heavier oil is priced below this benchmark, the difference is referred to as the 'light-to-heavy price differential'.

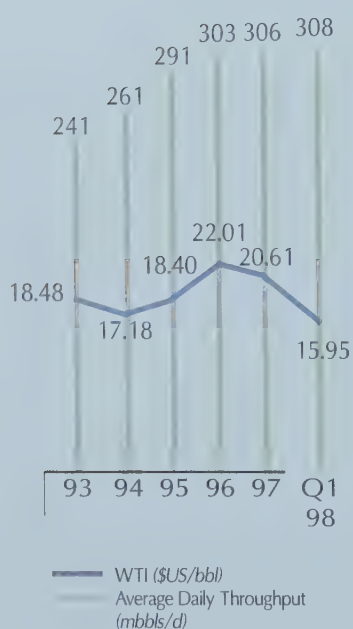
In the early months of 1998, WTI prices have declined substantially from the prices of one year ago. Concurrent with this is a widening of light-to-heavy crude oil price differentials, causing a greater decline in the wellhead prices received by producers for heavy oil.

In the past, though, there has been little correlation between WTI prices and overall annual throughputs on the Partnership's pipeline systems.

Pipelines have historically had the best safety record in the North American hydrocarbon transportation industry. As compared to natural gas pipelines, crude oil pipelines have a lower risk of incidents such as fire or explosion. The principal risks associated with crude oil pipelines are the property damage and cleanup expenses from unintended discharges, or of increased obligations imposed by new or revised regulations. The General Partner undertakes a number of preventative initiatives to promote safe and efficient operations, and to mitigate the risk of loss from pipeline leaks and crude oil spills. Also, the Partnership carries comprehensive insurance including sudden and accidental pollution coverage.

The General Partner is working in conjunction with a larger effort by Koch Industries, Inc. and its affiliates to address the Year 2000 computer issue. The Koch Industries, Inc. Year 2000 project is executive sponsored, and is targeted for completion prior to year end 1999. This project includes the assessment and upgrading of financial and reporting systems, and field equipment to ensure Year 2000 compliance. Also, Koch is planning to assess critical business associates of the Partnership for Year 2000 readiness. The Partnership will be charged its appropriate share of the costs to address the Year 2000 computer issue. Presently, management of the General Partner does not expect the cost amounts associated with becoming Year 2000 compliant will have a material effect on the Partnership's financial position or results of operations.

**Daily Throughput  
vs.  
Average WTI**



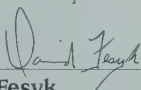
## Management's Responsibility for Financial Statements

The accompanying financial statements of Koch Pipelines Canada, L.P. (the "Partnership") and all information in this Annual Report are the responsibility of the management of the General Partner, Koch Pipelines Canada Ltd., and have been approved by the Board of Directors of Koch Pipelines Canada Ltd. The financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect the General Partner's best judgements. Financial information contained throughout this Annual Report is consistent with these financial statements.

The General Partner has developed and maintains an extensive system of internal control that provides reasonable assurance that all Partnership transactions are accurately recorded, that the Partnership's financial statements realistically report the operating and financial results and that the Partnership's assets are safeguarded.

In accordance with the Partnership Agreement, Ernst & Young, an independent firm of chartered accountants, was appointed by the General Partner to audit the Partnership's financial statements and provide an independent professional opinion.

*Koch Pipelines Canada Ltd. (General Partner),  
on behalf of Koch Pipelines Canada, L.P.*



**David W. Fesyk**  
*President and Chief Executive Officer*  
April 14, 1998



**D. Mark Alenius, C.A.**  
*Vice-President, Finance and Chief Financial Officer*

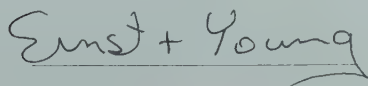
## Auditors' Report

### *To the Partners of Koch Pipelines Canada, L.P.*

We have audited the balance sheet of Koch Pipelines Canada, L.P. (the "Partnership") as at December 31, 1997 and the statements of operations and distributable cash, partners' equity and cash flows for the period from formation of the Partnership on October 9, 1997 to December 31, 1997. These financial statements are the responsibility of the management of Koch Pipelines Canada Ltd. (the "General Partner") on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 1997 and the results of its operations and the changes in its financial position for the period from formation of the Partnership on October 9, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.



**Chartered Accountants**

*Calgary, Canada*  
*March 2, 1998*

## balance sheet

As at December 31

(thousands of dollars)

1997

**Assets****Current**

|   |    |         |
|---|----|---------|
| Cash  | \$ | 1,085   |
| Accounts receivable                                   |    | 16,486  |
| Prepaid expenses                                      |    | 343     |
| Instalment receipts due                               |    | 150,000 |
|   |    | 167,914 |
| Deferred capital and pipeline inspection expenditures |    | 25,234  |
| Capital assets  |    | 660,388 |
|   | \$ | 853,536 |

**Liabilities and Partners' Equity****Current**

|  |    |         |
|--|----|---------|
| Distributable Cash payable               | \$ | 5,124   |
| Accounts payable and accrued liabilities |    | 12,076  |
| Note payable                             |    | 150,000 |
|  |    | 167,200 |

**Partners' equity**

|               |    |         |
|---------------|----|---------|
| Class A units |    | 351,607 |
| Class B units |    | 334,729 |
|               |    | 686,336 |
|               | \$ | 853,536 |

See accompanying notes

On behalf of the Board of Koch Pipelines Canada Ltd.,  
as General Partner of the Partnership:



Director



Director

# statement of partners' equity

19

Period from formation to December 31, 1997

(thousands of dollars)

|                                 | Limited Partners<br>Class A Units | General Partner<br>Class B Units | Total      |
|---------------------------------|-----------------------------------|----------------------------------|------------|
| Capital contributions           | \$ 353,313                        | \$ 336,353                       | \$ 689,666 |
| Net income for the period       | 919                               | 875                              | 1,794      |
| Distributions                   | (2,625)                           | (2,499)                          | (5,124)    |
| Partners' equity, end of period | \$ 351,607                        | \$ 334,729                       | \$ 686,336 |

See accompanying notes

# statements of operations and distributable cash

Period from formation to December 31

(thousands of dollars, except per unit amounts)

|   |                 |
|---|-----------------|
|   | 1997            |
| <b>Revenue</b>  | <b>\$ 8,437</b> |
| <b>Expenses</b>   |                 |
| Operating   | 1,949           |
| General and administrative  | 501             |
|   | <b>2,450</b>    |
| <b>Income before the following deductions</b>                           | <b>5,987</b>    |
| Depreciation  | 4,073           |
| Management fees   | 120             |
| Net income for the period   | <b>\$ 1,794</b> |
| <b>Add (deduct)</b>   |                 |
| Depreciation  | \$ 4,073        |
| Capital and pipeline inspection expenditures                            | (4,795)         |
| Capital and pipeline inspection expenditures prepaid by the Partnership | 4,766           |
| Reserve to be used for future distributions                             | (714)           |
| <b>Distributable cash for the period</b>                                | <b>\$ 5,124</b> |
| <b>Per Class A and B unit amounts</b>                                   |                 |
| Net income  | \$ 0.02         |
| Distributable cash  | \$ 0.07         |

See accompanying notes

## statement of cash flows

**Period from formation to December 31***(thousands of dollars)*

1997

**Operating Activities**

|  |              |
|--|--------------|
| Net income for the period                    | \$ 1,794     |
| Depreciation                                 | 4,073        |
| Cash flow from operations                    | 5,867        |
| Net change in non-cash working capital       | 371          |
| <b>Cash provided by operating activities</b> | <b>6,238</b> |

**Investing Activities**

|  |                  |
|--|------------------|
| Acquisition of pipeline assets                                     | (689,666)        |
| Additions to capital assets  | (4,795)          |
| Reduction in deferred capital and pipeline inspection expenditures | 4,766            |
| <b>Cash used in investing activities</b>                           | <b>(689,695)</b> |

**Financing Activities**

|  |                |
|--|----------------|
| Partners' capital contributions              | 689,666        |
| Instalment receipts due                      | (150,000)      |
| Note payable to General Partner              | 150,000        |
| Partnership distributions                    | (5,124)        |
| <b>Cash provided by financing activities</b> | <b>684,542</b> |

|   |                 |
|---|-----------------|
| <b>Increase in cash during the period</b> | <b>1,085</b>    |
| Cash, beginning of period                 | -               |
| <b>Cash, end of period</b>                | <b>\$ 1,085</b> |

*See accompanying notes*

**December 31, 1997**

*(tabular amounts in thousands of dollars, except for unit amounts)*

## 1. Formation And Structure Of The Partnership

The Partnership was formed with nominal capital as a limited partnership, under the laws of Alberta pursuant to an agreement dated October 9, 1997 (the "Partnership Agreement"), made between Koch Pipelines Canada Ltd., (the "General Partner") and 687371 Alberta Ltd., as the original limited partner. On November 27, 1997 the Partnership acquired \$689.6 million of net pipeline assets from the General Partner (see note 3) and sold 37,500,000 Class A Units on an instalment basis to the public (see notes 4 and 6).

The Partnership's business activities are related to the transportation, storage, marketing, and processing of hydrocarbons in Canada.

The Partnership is dependent on the General Partner for the administration and management of all matters relating to the operation of the Partnership.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of the Partnership. The General Partner also receives an annual base fee equal to 2 percent of the Partnership's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15 percent and 35 percent of the Partnership's annual Distributable Cash in excess of \$1.01 per unit to \$1.19 per unit respectively; an acquisition fee of 1.0 percent of the purchase price of any assets acquired by the Partnership (excluding the pipeline assets originally acquired); and a disposition fee of 0.5 percent of the sale price of any assets sold by the Partnership.

The Partnership will distribute, on a quarterly basis, Distributable Cash to holders of the Partnership Units. Distributable Cash is defined in the Partnership Agreement and generally means net income of the Partnership, adjusted for non-cash items and further adjusted for certain reserves, and is intended to allow the Partnership to retain cash as required to meet its ongoing liquidity and capital requirements.

Under existing income tax legislation, the Partnership is not subject to income taxes; however, the limited and general partners of the Partnership are subject to tax on their proportionate interest in the income for tax purposes earned by the Partnership.

## 2. Summary Of Significant Accounting Policies

### Capital assets

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation and is provided on a declining balance basis over their estimated service lives which range from 15 to 25 years. The service life for pipeline systems is determined with reference, together with other factors, to the estimated remaining life of the crude oil reserves expected to be gathered on the particular pipeline systems.

### Future site restoration and abandonment costs

Pipeline operations will be charged with any costs associated with the future site restoration and abandonment of the pipeline assets. The potential costs of abandonment will be a function of a number of factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the pipeline assets can reasonably be determined, estimated costs will be provided over the remaining life of the pipeline assets. To date, no provision for such future costs has been recorded.

### Measurement uncertainty

The amounts recorded for depreciation of capital assets and the projections of future site restoration costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

### Financial instruments

Financial instruments of the Partnership consist of cash, accounts receivable, instalment receipts due, Distributable Cash payable, accounts payable and accrued liabilities and note payable. As at December 31, 1997 there were no significant differences (other than the instalment receipts due and note payable) between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values.

### 3. Acquisition Of Pipeline Assets

On November 27, 1997, the Partnership acquired certain pipeline assets previously owned by the General Partner and its affiliates. The pipeline assets consist of the Bow River Pipeline System, the Koch Alberta Pipeline System, the Koch Valley Pipeline System and the Mid-Saskatchewan Pipeline System.

The acquisition has been accounted for as a purchase and the purchase price has been allocated according to the estimated fair values of the assets acquired as follows:

|   |    |         |
|---|----|---------|
| Capital assets  | \$ | 659,666 |
| Deferred capital and pipeline inspection expenditures (a) |    | 30,000  |
|   | \$ | 689,666 |

Consideration paid for the assets consisted of:

|   |    |         |
|---|----|---------|
| 35,700,000 Class B Partnership Units issued | \$ | 336,353 |
| Cash  |    | 203,313 |
| Note payable to the General Partner         |    | 150,000 |
|   | \$ | 689,666 |

(a) On November 27, 1997 certain capital improvements and a pipeline inspection and repair program were ongoing on the assets acquired from the General Partner. The estimated costs of these two projects were \$20 million and \$10 million, respectively. To facilitate the sale of the pipeline assets, the Partnership paid \$30 million to an affiliate of the General Partner to complete these projects on the Partnership's behalf. The capital improvements and inspection and repair costs will be capitalized and charged to expense, respectively, when the expenditures are made by the affiliate. \$4.76 million of these amounts were expended during the period ended December 31, 1997.

### 4. Instalment Receipts Due And Note Payable

The total subscription price for the Class A Units of \$375 million is payable on an instalment basis. On November 27, 1997, the Partnership received \$225 million, being the initial instalment of \$6.00 per Class A unit for the 37,500,000 Class A Units issued. The final instalment of \$4.00 per Class A Unit totalling \$150 million is payable on or before November 27, 1998.

The Class A Units are pledged to the Partnership as collateral for the payment of the final instalment. The Partnership has assigned to the General Partner its entitlement to the final instalments and its rights and entitlements under the pledge of the Class A Units to the Partnership as collateral for the note payable.

Because the instalment receipts due and note payable amounts are non-interest bearing, the discounted value of each is estimated to be \$6.9 million less than their carrying values.

## 5. Credit Facility

The Partnership has a \$50 million unsecured demand operating credit facility with a Canadian chartered bank. Advances under the facility can take the form of prime based loans, Libor loans, banker's acceptances or letters of credit, at the Partnership's option, and will bear interest at market rates. The facility was not used in the period ended December 31, 1997.

## 6. Partners' Capital

### Authorized

Unlimited number of Class A Limited Partnership units

Unlimited number of Class B partnership units

| (a) Class A Partnership units outstanding       |                   | # |                   |
|---|-------------------|---|-------------------|
| <b>Balance, October 9, 1997</b>                 |                   | 1 | \$ 1              |
| Issued for cash and instalment receipts         | 37,500,000        |   | 353,313           |
| Cancellation of founding limited partner's unit | (1)               |   | (1)               |
| <b>Balance, December 31, 1997</b>               | <b>37,500,000</b> |   | <b>\$ 353,313</b> |

| (b) Class B Partnership units outstanding |                   | # |                   |
|---|-------------------|---|-------------------|
| <b>Balance, October 9, 1997</b>           |                   | - | \$ -              |
| Issued to acquire pipeline assets         | 35,700,000        |   | 336,353           |
| <b>Balance, December 31, 1997</b>         | <b>35,700,000</b> |   | <b>\$ 336,353</b> |

### (c) Net income and Distributable Cash

Class A and Class B units share equally on a pro rata basis in the allocation of net income and Distributable Cash. The amount reported for net income and Distributable Cash per Class A and B unit is based on the pro rata share and the weighted average number of Class A and Class B units outstanding for the period from issuance to December 31, 1997.

## 7. Related Party Transactions

Included in revenues is \$830,000 earned from affiliates of the General Partner in the normal course of operations. These amounts are recorded at their exchange amounts.

Operating and general and administrative expenses include direct costs incurred by affiliates of the General Partner on the Partnership's behalf and an allocation of operating and general and administrative expenses from these affiliates based primarily on time spent on the activities associated with Partnership operations. Such amounts are incurred in the normal course of operations and are recorded at an estimate of the cost for such expenses.

Amounts due to the General Partner and its affiliates are non-interest bearing and have no fixed repayment terms. At December 31, 1997, balances payable between the Partnership and affiliates of the General Partner include \$1.5 million in accounts receivable and \$1.2 million in accounts payable and accrued liabilities.



**Directors and Officers, Koch Pipelines Canada Ltd. (General Partner)****David W. Fesyk**, *Director, President and Chief Executive Officer*

David joined Koch in 1991 and has held several senior positions with Koch's Canadian crude oil marketing, transportation and commercial development operations. Most recently David held the positions of General Manager, Business Development and Vice President, Transportation of Koch Oil Co. Ltd. Prior to joining Koch, David gained experience in both the upstream and downstream sectors of the oil and gas industry through employment with Esso Petroleum Canada Ltd. and geological consulting firms. David graduated from Arizona State University in 1984 with a Bachelor of Science degree in Earth Science. He also earned a Master of Business Administration degree from the University of Calgary in 1993.

**Randolph C. Aldridge**, *Director*

Mr. Aldridge is President of Koch Canada Ltd. Mr. Aldridge has over 25 years engineering, marketing and management experience, including eight years as President of Koch Oil Co. Ltd. in Calgary, and the last three years as President of Koch Oil Company in Wichita, Kansas. In April of 1998, Mr. Aldridge returned to Calgary, Alberta, where he was appointed President, Koch Canada Ltd. Mr. Aldridge attended Texas A&M where he received a Bachelor of Science in Chemical Engineering. He went on to earn a Master's Degree in Management Science from the University of Texas at Dallas.

**Stephen K. Kromer**, *Director*

Mr. Kromer has been President of Koch Exploration Canada Ltd., an indirect subsidiary of Koch Industries since 1994 and has held various positions with Koch since 1982. In April of this year, Mr. Kromer was named Chief Information Officer for Koch Industries, Inc., and has relocated from Calgary, Alberta to Wichita, Kansas.

**Joseph W. Moeller**, *Director*

Mr. Moeller is Executive Vice-President of Koch Industries, Inc. and is a member of the Koch Industries, Inc. board of directors. Mr Moeller has been directly involved in the management of Koch's Canadian businesses for over ten years.

**Derek Brown**, *Director*

Mr. Brown has been an Adjunct Professor of Finance in the Joseph L. Rotman School of Management and prior thereto a Special Lecturer at the University of Toronto since October 31, 1996. Prior thereto Mr. Brown was Vice-President and Director of RBC Dominion Securities Inc., an investment dealer.

**Keith F. Miller, Director**

Mr. Miller is a Partner with Burnet, Duckworth & Palmer. Since 1980, he has practiced regulatory law, principally before the National Energy Board and the Alberta Energy and Utilities Board.

**R. Timothy Swinton, Director**

Mr. Swinton has been President and Director of Western Provinces Resources Ltd. since June 1997. Mr. Swinton was Chairman and Chief Executive Officer of Kenting Energy Services Inc., an oilfield services company, between January 1997 and May 1997 when such company was acquired. Prior thereto Mr. Swinton was Chairman and Chief Executive Officer of Enserv Corporation, a diversified oilfield services company.

**Frank Janzen, P. Eng., Vice-President Operations**

During his 22-year tenure with Koch, Frank has been directly involved in the operation and management of the Pipeline Assets. Frank joined Koch in 1975 as a Field Engineer with the Bow River and Mid-Saskatchewan Pipeline Systems, and was promoted to Senior Engineer in April, 1984, with a further promotion to President of Bow River Pipe Lines Ltd. and Mid-Saskatchewan Pipe Lines, Ltd. in August, 1984. Since October 1991, Frank has also served as Vice-President of Koch Pipelines Ltd., which owned the Koch Alberta and Koch Valley Pipeline Systems. Frank graduated from the University of Calgary in 1975 with a Bachelor of Science Degree in Electrical Engineering.

**D. Mark Alenius, C.A., Vice-President, Finance and Chief Financial Officer**

Mark joined Koch Oil Co. Ltd. in 1990, and has held senior accounting and tax positions with Koch's Canadian businesses. Prior to joining the General Partner in January, 1998, Mark held the position of Controller of Koch Exploration Canada, Ltd. Mark's experience before joining Koch includes working with Collins Barrow Chartered Accountants from 1984 to 1990, and the Canadian Imperial Bank of Commerce in 1983 and 1984. Mark graduated from the University of Alberta with a major in Finance in 1983.

**Mark Wilkerson, Corporate Secretary**

Mark has been an attorney with Koch Industries, Inc. for over three years and has worked with many of Koch's businesses in various capacities. He currently supports many of Koch's Canadian companies as Assistant Secretary, Legal Affairs. Prior to joining Koch, Mark practiced with the Kansas City, Missouri, law firm of Smith, Gill, Fisher and Butts (now part of Bryan Cave, L.P.) for nearly six years.



**Board of Directors,  
Koch Pipelines Canada Ltd. (General Partner)**

**Randolph C. Aldridge**, *President*  
*Koch Canada Ltd.*

**David W. Fesyk**, *President and Chief Executive Officer, Koch Pipelines Canada Ltd.*

**Stephen K. Kromer**, \* *Chief Information Officer*  
*Koch Industries, Inc.*

**Joseph W. Moeller**, *Executive*  
*Vice-President and Director Koch Industries, Inc.*

**Derek Brown**, *Director*  
*Adjunct Professor of Finance, University of Toronto*

**Keith F. Miller**, \* *Partner*  
*Burnet, Duckworth & Palmer*

**R. Timothy Swinton**, \* *President*  
*Western Provinces Resources Ltd.*

\* *Member of the audit committee*

**Officers,  
Koch Pipelines Canada Ltd. (General Partner)**

**David W. Fesyk**, *President and Chief Executive Officer*

**Frank Janzen**, *P. Eng., Vice-President Operations*

**D. Mark Alenius**, *C.A., Vice-President, Finance and Chief Financial Officer*

**Mark Wilkerson**, *Corporate Secretary*

**Head Office**

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Calgary, Alberta  
T2P 3Y6

Telephone: (403) 716-7600

Facsimile: (403) 716-7440

**Bankers**

Bank of Montreal  
Calgary, Alberta

**Auditors**

Ernst & Young  
Calgary, Alberta

**Registrar and Transfer Agent**

The Trust Company of Bank of Montreal

**Legal Counsel**

Burnet, Duckworth & Palmer  
Calgary, Alberta

**Stock Exchange Listing**

The Toronto Stock Exchange  
37,500,000 Class A limited partnership units  
under the symbol **KPC.IR**

## Definitions

**°API:** means the gravity or density of the liquid petroleum products as defined by the American Petroleum Institute.

**Heavy crude oil:** Heavy crude oil generally means crude oil having a gravity less than 25° API (or a density greater than 904 kg/m<sup>3</sup>).

**Medium crude oil:** Medium crude oil generally means crude oil having a gravity of more than 25° API (or a density less than 904 kg/m<sup>3</sup>), but less than 30° API (or a density greater than 875 kg/m<sup>3</sup>).

**Light sour crude oil:** Light sour crude oil means crude oil having a gravity greater than 30° API (or a density less than 875 kg/m<sup>3</sup>) and which has a sulphur content more than 0.5 per cent by weight.

**Light sweet crude oil:** Light sweet crude oil means crude oil having a gravity greater than 30° API (or a density less than 875 kg/m<sup>3</sup>) and which has a sulphur content less than or equal to 0.5 per cent by weight.

**Condensate:** means a mixture mainly of pentanes and heavier hydrocarbons that is recovered from natural gas wells, and that is liquid at typical atmospheric temperature and pressure.

## Abbreviations

bbl . . . . .barrel(s)

bbl/d . . . . .barrel(s) per day

Mbbl/d . . . . .thousand barrels per day

MMbbl . . . . .million barrels



This prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Initial Public Offering



November 18, 1997

AR57

\$375,000,000

37,500,000 Class A Limited Partnership Units  
(represented by Instalment Receipts)

This prospectus qualifies the distribution of 37,500,000 Class A limited partnership Units (the "Class A Units") of Koch Pipelines Canada, L.P. (the "Partnership").

The Partnership is a limited partnership established under the laws of the Province of Alberta which has been organized to acquire Canadian crude oil pipelines owned and operated by various direct and indirect subsidiaries (collectively, "Koch Canada") of Koch Industries, Inc. ("Koch Industries"). Upon completion of this offering, Koch Industries (pronounced "coke") will hold a 48.8% indirect interest in the Partnership and Koch Pipelines Canada Ltd. (the "General Partner"), an indirect, wholly-owned subsidiary of Koch Industries, will be the general partner of the Partnership.

The Pipeline Assets to be acquired by the Partnership are Koch Canada's 100% owned and operated interests in the Bow River, Koch Alberta, Mid-Saskatchewan and Koch Valley Pipeline Systems. The Pipeline Assets, with a total of approximately 2,400 miles of pipeline, constitute one of the largest crude oil feeder pipeline businesses in Canada, transporting approximately 303,000 bbls/d of crude oil and condensate in 1996 (approximately 19.4% of Canadian conventional crude oil and condensate production). The aggregate purchase price for the Pipeline Assets is approximately \$689.7 million. See "The Partnership — Acquisition of Pipeline Assets".

The Class A Units are offered hereby at a price of \$10.00 per Class A Unit on an instalment basis. An initial payment of \$6.00 per Class A Unit is payable on the closing of this offering and the final instalment of \$4.00 per Class A Unit is payable on or before November 27, 1998. The Class A Units will be pledged to the Partnership to secure the obligation of the Unitholders to pay the final instalment of the purchase price of the Class A Units. Prior to the final instalment being paid, beneficial ownership of the Class A Units will be represented by instalment receipts (the "Instalment Receipts"). **If a registered holder of an Instalment Receipt does not pay the final instalment on or before the due date, the Class A Units represented by such registered holder's Instalment Receipt may be sold, in which case the registered holder shall remain liable for any deficiency in the proceeds of such sale. See "Details of the Offering".** The Partnership will assign its entitlement to the final instalments under the Instalment Receipts and its rights and entitlements under the pledge of the Class A Units to the General Partner as security for the deferred portion of the purchase price of the Pipeline Assets. See "The Partnership — Acquisition of the Pipeline Assets".

Only persons who are residents of Canada, or, if partnerships, are Canadian partnerships, in each case, for purposes of the *Income Tax Act* (Canada) (the "Tax Act"), may purchase or own Class A Units pursuant to this offering or thereafter acquire Class A Units. Ownership restrictions are also applicable to persons an interest in which would be a "tax shelter investment" for purposes of certain proposed amendments to the Tax Act and to certain persons associated with Koch. See "The Partnership Agreement — Transfer of Class A Units and Ownership Constraints".

There is presently no market through which the Class A Units or the Instalment Receipts may be sold. The offering price of the Class A Units has been determined by negotiation among the General Partner, as general partner of the Partnership, Koch Industries and the Underwriters. An investment in the Class A Units is subject to certain risks that should be considered by prospective purchasers. The market price of the Class A Units from time to time will be sensitive to a variety of market conditions including, but not limited to, interest rates. A rise in interest rates may result in a decline in the market price of the Class A Units. See "Risk Factors".

Certain conflicts of interest could arise because of the relationships among Koch Industries and its subsidiaries (collectively, "Koch"), including the General Partner, and the Partnership. See "Conflicts of Interest and Fiduciary Responsibility".

The Partnership anticipates distributing Distributable Cash (as defined herein) in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of such quarter. Payments will be made on or about the 30th day after each record date. The distribution in respect of the initial period from closing of the offering to December 31, 1997 is expected to be paid on January 30, 1998 to Unitholders of record on December 31, 1997. See "The Partnership Agreement — Quarterly Cash Distributions".

The Toronto Stock Exchange has conditionally approved the listing of the Class A Units and Instalment Receipts. Listing is subject to the Partnership fulfilling all the requirements of such exchange including distribution of the Class A Units to a minimum number of public holders.

In the opinion of counsel, the Class A Units, represented by Instalment Receipts, will, at the date of closing, be eligible for investment under certain statutes as set out under "Eligibility for Investment". On and after listing of the Class A Units on a prescribed stock exchange, the Class A Units will also be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. **Class A Units will constitute foreign property under the Tax Act for such plans.** See "Eligibility for Investment".

**Price: \$10.00 per Class A Unit, of which \$6.00 is payable on closing**

|                              | Price                | Underwriters' Fee   | Net Proceeds to the Partnership <sup>(1)</sup> |
|------------------------------|----------------------|---------------------|--|
| Per Class A Unit             |                      |                     |  |
| Initial Instalment .....     | \$ 6.00              | \$0.525             | \$5.475  |
| Final Instalment .....       | 4.00                 | —                   | 4.000  |
| Total per Class A Unit ..... | <u>\$10.00</u>       | <u>\$0.525</u>      | <u>\$9.475</u>                                 |
| Total Offering .....         | <u>\$375,000,000</u> | <u>\$19,687,500</u> | <u>\$355,312,500</u>                           |

Note:

(1) Before deducting expenses of the issue estimated at \$2,000,000 which, together with the Underwriters' fee, will be paid by the Partnership out of the proceeds of this offering.

The Underwriters, as principals, conditionally offer the Class A Units, subject to prior sale, if, as and when issued, sold and delivered by the Partnership and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain matters on behalf of Koch and the Partnership by Burnet, Duckworth & Palmer, Calgary and on behalf of the Underwriters by Milner Fenerty, Calgary.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of this offering will occur on or about November 27, 1997, or such later date as the General Partner, Koch Industries and the Underwriters may agree but in any event not later than December 31, 1997. It is expected that the Instalment Receipts will be available for delivery at the closing.



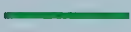
# KOCH



## PIPELINES CANADA, L.P. PIPELINE



### LEGEND:

-  *Refinery*
-  *Terminal*
-  *Bow River Pipeline System*

-  *Koch Alberta*
-  *Mid-Saskatchewan*
-  *Koch Valley*

# ASSETS AND MAJOR EXPORT PIPELINES

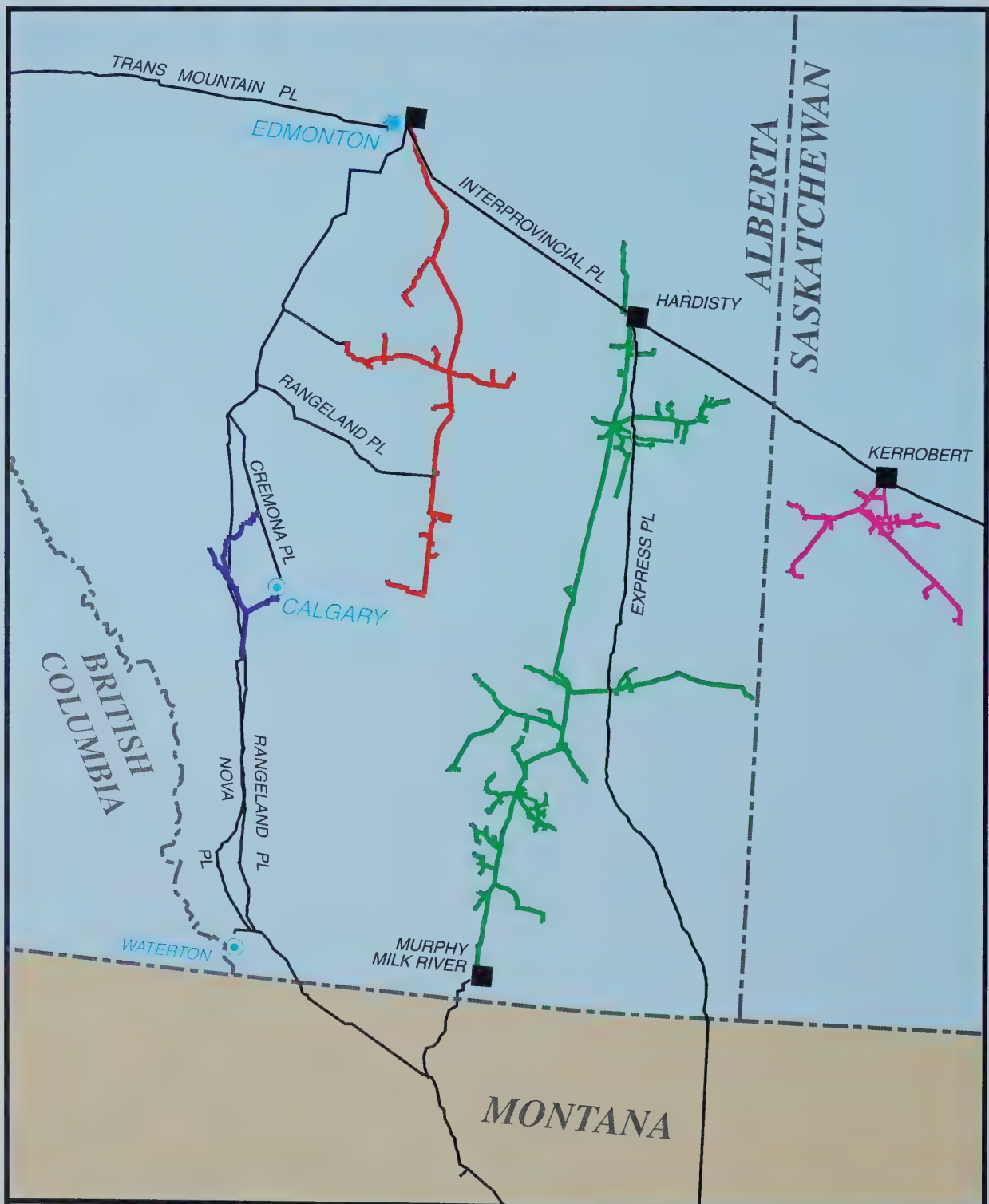


*Pipeline System*







*wan Pipeline System*

*pipeline System*

———— *Third Party Pipeline Systems*



**LEGEND:**

- |   |                              |   |                                  |
|---|------------------------------|---|----------------------------------|
|  | Terminal                     |  | Mid-Saskatchewan Pipeline System |
|  | Bow River Pipeline System    |  | Koch Valley Pipeline System      |
|  | Koch Alberta Pipeline System |  | Third Party Pipeline Systems     |

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## SUMMARY

*The following summary is qualified by and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus. Reference is made to "Glossary" for the meanings of certain defined terms.*

### The Partnership

The Partnership is a limited partnership established under the laws of the Province of Alberta pursuant to the Partnership Agreement. The Partnership has been organized initially to acquire the Pipeline Assets which are comprised of Koch Canada's 100% owned and operated interests in four feeder pipeline systems located in Alberta and Saskatchewan. The Pipelines, with a total of approximately 2,400 miles of pipeline, constitute one of the largest crude oil feeder pipeline businesses in Canada, transporting approximately 303,000 bbls/d of crude oil and condensate in 1996 (approximately 19.4% of Canadian conventional crude oil and condensate production). The aggregate purchase price for the Pipeline Assets is approximately \$689.7 million. The book value of the Pipeline Assets to Koch Canada was approximately \$210 million at July 31, 1997. See "The Partnership — Acquisition of Pipeline Assets".

The general partner of the Partnership is Koch Pipelines Canada Ltd. (the "General Partner"), an indirect wholly-owned subsidiary of Koch Industries. See "The Partnership Agreement".

The Partnership will acquire the Pipeline Assets from the General Partner in consideration for 35,700,000 Class B Units, representing a Partnership Interest of approximately 48.8%, and approximately \$353.3 million in cash, of which \$203.3 million will be paid on closing and \$150.0 million will be due and payable on November 27, 1998 and secured by an assignment of the Partnership's entitlement to the final instalment of the purchase price of the Class A Units. See "The Partnership — Acquisition of the Pipeline Assets".

### Koch

Koch Industries, headquartered in Wichita, Kansas, was established in 1940, and, through its various direct and indirect subsidiaries (collectively, "Koch"), is active in virtually all phases of the oil and gas industry. Koch owns and operates one of North America's largest liquids pipeline systems which includes more than 31 crude oil, refined products, natural gas liquids, ammonia and natural gas pipelines in Canada and the United States. Koch is also involved in chemicals, chemical technology products, asphalt products, energy services, minerals, capital services and agriculture. *Forbes* Magazine recently ranked Koch as the second largest privately held company in the United States based on revenues, which were in excess of U.S.\$28 billion in calendar 1996, representing a more than 100-fold growth in revenues since 1967.

Koch commenced business in Canada in 1959, and since that time has grown to become the largest exporter and one of the largest refiners of Canadian crude oil. Koch is also the largest shipper of crude oil on the Interprovincial Pipe Line system (the "IPL Pipeline"), accounting for over 14% of total crude oil volumes on the IPL Pipeline in 1996. In addition to its Canadian crude oil marketing and pipeline businesses, Koch is engaged in oil and gas exploration and production, natural gas marketing, capital services and crude oil trucking in western Canada. Koch also owns a non-operated 50% interest in the South Saskatchewan pipeline system, a feeder pipeline system located in Saskatchewan, which will not be acquired by the Partnership.

Koch Canada currently owns and operates the Pipeline Assets. Upon closing of the offering, Koch Industries will, indirectly through the General Partner, hold Class B Units representing a 48.8% Partnership Interest.

### **The Offering**

|   |  |
|---|--|
| <b>Issue:</b>                           | 37,500,000 Class A Units of the Partnership represented by Instalment Receipts.  |
| <b>Issue Price:</b>                     | \$10.00 per Class A Unit of which \$6.00 is payable upon closing of this offering and \$4.00 is payable on or before November 27, 1998.  |
| <b>Amount:</b>                          | \$375,000,000  |
| <b>Use of Proceeds:</b>                 | The net proceeds from the initial instalments on the Class A Units, after deducting expenses of the offering estimated at \$2.0 million, are expected to be approximately \$203.3 million. The net proceeds will be used by the Partnership to pay a part of the cash portion of the purchase price of the Pipeline Assets pursuant to the Asset Purchase Agreement, being approximately \$203.3 million. The net proceeds of \$150.0 million from the final instalments on the Class A Units will be paid by the Partnership to the General Partner in satisfaction of the deferred portion of the purchase price for the Pipeline Assets.  |
| <b>Class A Units:</b>                   | Each Class A Unit represents an equal undivided limited partnership interest in the Partnership. Each Class A Unit is transferable (subject to requirements in connection with a transfer referred to under "The Partnership Agreement — Transfer of Class A Units and Ownership Constraints"), entitles the holder to participate in distributions from the Partnership equally with the holders of Class B Units, including distributions of Distributable Cash, is not subject to future calls or assessments (except pursuant to the Instalment Receipt Agreement) and entitles the holder to limited liability. Only in certain circumstances is a holder entitled to vote at meetings of Limited Partners, as the holder would lose the benefit of limited liability if the holder participated in the management or control of the Partnership. In circumstances where the holder is entitled to vote, the holder will be entitled to one vote for each whole Class A Unit held. See "The Partnership Agreement — Meetings and Voting". |
| <b>Distributions:</b>                   | The Partnership will distribute Distributable Cash to holders of Class A Units and holders of Class B Units on a quarterly basis. See "The Partnership Agreement — Quarterly Cash Distributions". The Partnership anticipates distributing Distributable Cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of such quarter. Payments will be made on or about the 30th day after each record date. The distribution in respect of the initial period from closing of the offering to December 31, 1997 is expected to be paid on January 30, 1998 to Unitholders of record on December 31, 1997. As closing is expected to occur on or about November 27, 1997, the distribution in respect of the initial period will not reflect a full quarter of operations.  |
| <b>Instalment Payment Arrangements:</b> | The purchase price for the Class A Units is payable on an instalment basis. Prior to the final instalment payment, beneficial ownership of the Class A Units will be represented by the Instalment Receipts. The initial instalment of \$6.00 per Class A Unit is payable on the closing of this offering and the final instalment of \$4.00 per Class A Unit is payable on or before November 27, 1998 (not later than 5:00 p.m. local time at the place of payment on such date). The Class A Units will be pledged to the Partnership as security for the payment of the final instalment and will be held by the Security Agent, initially on the Partnership's behalf. The Partnership will secure its obligation to pay the deferred portion of the purchase price for the Pipeline Assets by an assignment to the General Partner of its entitlement to the final instalments   |

under the Instalment Receipts and its rights and entitlements under the pledge of the Class A Units to the Partnership. The recourse of the General Partner against the Partnership in respect of the deferred portion of the purchase price will be limited to the assignment of the rights and entitlements of the Partnership under the Instalment Receipt Agreement. There will not be any recourse by the General Partner to the Partnership in respect of any final instalments under the Instalment Receipts that are not paid.

As soon as practicable after payment of the final instalment, the registered holder of an Instalment Receipt will receive a certificate representing the underlying Class A Units. If a registered holder of an Instalment Receipt does not pay the final instalment on or before the due date, the Class A Units represented by such Instalment Receipt may be sold and the registered holder shall remain liable for any deficiency if the proceeds of such sale are insufficient to cover the amount of the final instalment and the costs of sale (such costs of sale not to exceed \$1.00 per Unit).

**Rights of Instalment Receipt Holders:**

Registered holders of Instalment Receipts will be entitled, in the manner set forth in the Instalment Receipt Agreement described herein, to fully participate in all payments and other distributions, to exercise any votes attached to the Class A Units represented by such Instalment Receipts, and to receive periodic reports and other materials in like manner as if they were registered holders of the Class A Units, unless they have defaulted on their obligations under the Instalment Receipts. See "Details of the Offering — Instalment Receipts".

**Eligibility for Investment:**

In the opinion of counsel, the Class A Units represented by Instalment Receipts will, at the date of closing, not be precluded for investment under certain statutes as set forth under "Eligibility for Investment". In addition, in the opinion of counsel, the Class A Units will, on and after listing of the Class A Units represented by Instalment Receipts on a prescribed stock exchange, be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. **The Class A Units, however, will constitute foreign property under the Tax Act for such plans.** See "Canadian Federal Income Tax Considerations".

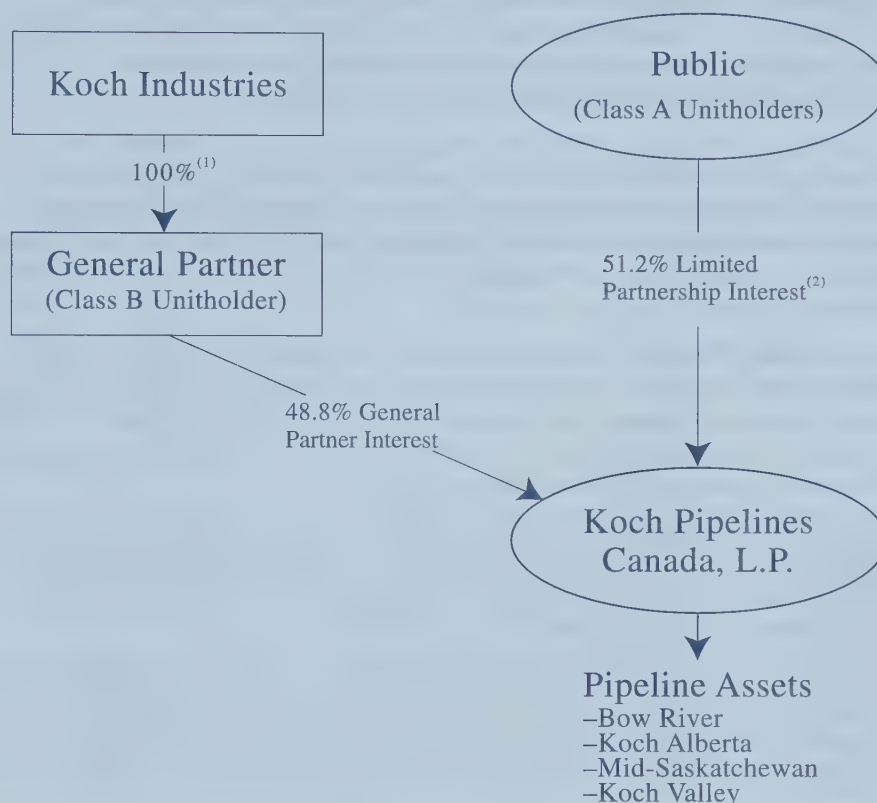
**Tax Considerations:**

Limited Partners will be required to include or will be entitled to deduct, in computing income, a pro rata share of the income or loss for tax purposes of the Partnership allocated to the Limited Partner pursuant to the Partnership Agreement for the fiscal period of the Partnership ending in such Limited Partner's taxation year whether or not a distribution is made in cash to such Limited Partner by the Partnership. The amount of income allocated to a Limited Partner may exceed or be less than the amount of cash distributed to such Limited Partner.

Prospective purchasers should consult their own tax advisors regarding the tax implications of an investment in Class A Units. See "Canadian Federal Income Tax Considerations".

### Ownership and Management Structure

The following chart summarizes the ownership and management structure of the Partnership upon closing of this offering and acquisition of the Pipeline Assets by the Partnership.



#### Notes:

- (1) Indirectly wholly-owned by Koch Industries.
- (2) On closing of this offering, Class A Unitholders will own 51.2% of the Partnership, subject to the obligation to pay the final instalment under the Instalment Receipt Agreement on or before November 27, 1998. The Class A Units will be pledged to the Partnership to secure the obligation to make the final instalment under the Instalment Receipt Agreement. The Partnership will assign its rights and entitlements under the Instalment Receipt Agreement as security to the General Partner. See "Details of the Offering — Instalment Receipts".

### Business and Assets of the Partnership

On the closing of this offering, the Partnership will acquire the Canadian crude oil pipelines and related assets owned and operated by Koch Canada. The Pipeline Assets are comprised of Koch Canada's 100% interests in four feeder pipeline systems located in Alberta and Saskatchewan.

The Pipeline Assets and associated business have the following characteristics:

**Strong Market Position:** The Pipelines consist of approximately 2,400 miles of pipeline in total and constitute one of the largest crude oil feeder pipeline businesses in Canada, transporting approximately 303,000 bbls/d of crude oil in 1996 representing approximately 19.4% of Canadian conventional crude oil and condensate production. In 1996, the areas serviced by the Pipelines in Alberta contained approximately 25% of Alberta's estimated remaining recoverable conventional crude oil reserves. The areas serviced by the Mid-Saskatchewan Pipeline System contained approximately 10% of Saskatchewan's estimated remaining recoverable conventional crude oil reserves in 1995.

**History of Growth:** From 1992 through 1996, the Pipelines, on a consolidated basis, have experienced growing revenue, cash flow and profitability, which have resulted from increasing throughput and growth in revenue per barrel. Throughput on the Pipelines has increased by 32.8% over this period, representing an aggregate annual compound growth rate of 7.3%.

*Reserve Stability:* Government studies estimate that remaining recoverable crude oil reserves in areas serviced by the Bow River and Koch Alberta Pipeline Systems have increased from approximately 430 mmbbls in 1988 to approximately 540 mmbbls in 1996 and, in the areas serviced by the Mid-Saskatchewan Pipeline System, have remained relatively constant at approximately 96 mmbbls from 1988 to 1995. Over this period, approximately 800 mmbbls of crude oil have been produced from the areas serviced by the Bow River and Koch Alberta Pipeline Systems and approximately 63 mmbbls have been produced from the areas serviced by the Mid-Saskatchewan Pipeline System. See "Business and Assets of the Partnership — Reserves".

*Diversified Production and Customer Base:* The Pipelines gather and transport crude oil from over 2,000 producing reservoirs, in approximately 200 fields, on approximately 22 million acres of oil and gas lands in Alberta and Saskatchewan, and provided crude oil transportation services to approximately 154 producers and 44 shippers in August, 1997. These customers include some of the largest oil and gas exploration and production companies in Canada including AEC, Amoco, Canadian Natural, Crestar, Gulf Canada, Mobil, Norcen, PanCanadian, Renaissance and Wascana.

*Experienced Management:* Through the General Partner, the Partnership should benefit from the experience and capabilities which Koch has developed in building and operating one of the largest liquids pipeline businesses in North America. Koch Industries, through the General Partner, will retain an indirect 48.8% interest in the Partnership. The General Partner has agreed not to voluntarily withdraw as general partner for a period of five years from the closing of the offering except in certain limited circumstances.

*Reliable Operations:* The Pipeline Assets have benefitted from maintenance programs developed and administered by Koch Canada and have experienced infrequent environmental incidents. The Pipelines have also benefitted from being monitored from Koch's pipeline control centre located in Wichita, Kansas, which monitors and dispatches operating orders to approximately 31 of Koch's pipeline systems.

*Opportunities for Growth:* The Pipelines have generally experienced increasing throughputs over the last several years, and capital projects are currently approved or underway with an aggregate estimated cost of approximately \$20.7 million which are anticipated to add a total of approximately 26,300 bbls/d of throughput to the Pipelines by the end of the first quarter of 1998. Koch will be responsible for the costs associated with these expansion projects.

### **Bow River Pipeline System**

The Bow River Pipeline System, the largest of the Pipelines, is a 1,525-mile major crude oil feeder pipeline and gathering system. The system has a total throughput capacity of approximately 239,600 bbls/d, and transported approximately 197,800 bbls/d of heavy blend and light sour crude oil in 1996. The system gathers and transports crude oil from established producing fields in southeastern Alberta north for delivery to the IPL Pipeline and Express Pipeline system (the "Express Pipeline") connections at Hardisty, Alberta (the second largest injection hub for delivery of crude oil into the IPL Pipeline), and south to the Murphy-owned pipeline at Milk River, Alberta. The Murphy pipeline delivers volumes to pipelines connected to refineries at Billings, Montana.

The Bow River Pipeline System accounted for approximately 65% of the total volumes transported on the Pipelines in 1996. Average daily throughput on the system has increased at a compound annual growth rate of 7.5% during the period from 1992 through 1996. Approximately 93 producers and 36 shippers were served by the system in August, 1997, with production volumes from facilities operated by AEC, Crestar, Norcen, PanCanadian and Renaissance together accounting for over 50% of the throughput volumes on the system in August, 1997.

The Bow River Pipeline System was constructed by Koch and a partner in 1964 and 1965 and initially serviced an area with less than 10,000 bbls/d of available crude oil volumes. Koch purchased the remaining 50% interest in the system in 1973. Since 1992, mainline expansions to the southbound lines have increased capacity from approximately 12,000 bbls/d to the current capacity of 96,200 bbls/d. It is expected that additional increases in production within the corridor of the Bow River Pipeline System will require the addition of new capacity to the northbound portion of the system, and construction of a mainline expansion to increase the total northbound capacity from 143,400 bbls/d to 159,800 bbls/d by the end of the first quarter of 1998 is scheduled to begin in November, 1997.

Including the northbound mainline extension, expansion projects with an aggregate estimated cost of approximately \$18.2 million, anticipated to add approximately 20,600 bbls/d of throughput, are scheduled for completion by the end of the first quarter of 1998.

### **Koch Alberta Pipeline System**

The Koch Alberta Pipeline System is a 390-mile major crude oil feeder pipeline and gathering system. The system has a throughput capacity of approximately 73,900 bbls/d, and transported approximately 66,700 bbls/d of light crude oil in 1996. The system gathers and transports crude oil from established producing fields in south central Alberta north to refineries at Edmonton, and to the IPL Pipeline and the Trans Mountain pipeline system (the "Trans Mountain Pipeline") at Edmonton. Included in the total volumes transported in 1996 were approximately 4,100 bbls/d of light sweet crude oil delivered west to the Amoco Rangeland Pipeline near Red Deer, Alberta in 1996.

The Koch Alberta Pipeline System accounted for approximately 22% of the total volumes transported on the Pipelines in 1996. Average daily throughput on the system has increased at a compound annual growth rate of 5.0% during the period from 1992 through 1996. Approximately 54 producers and 36 shippers were served by the system in August, 1997, with production volumes from facilities operated by Canadian Natural, PanCanadian, Renaissance and Ulster together accounting for over 55% of the throughput volumes on the system in August, 1997.

The Koch Alberta Pipeline System was originally constructed in the early 1950s to serve oil fields between Drumheller and Stettler, Alberta. The system was acquired by Koch in 1991. Minor expansion projects on the system are currently being evaluated.

### **Mid-Saskatchewan Pipeline System**

The Mid-Saskatchewan Pipeline System is a 334-mile major crude oil feeder pipeline and gathering system. The system has a total throughput capacity of approximately 63,200 bbls/d, and transported approximately 32,100 bbls/d of crude oil in 1996. The system gathers crude oil from several established producing fields near Kindersley and Kerrobert in west central Saskatchewan, and transports it to the IPL Pipeline at Kerrobert.

The Mid-Saskatchewan Pipeline System accounted for approximately 11% of the total volumes transported on the Pipelines in 1996. Average daily throughput on the system has increased at a compound annual growth rate of 16.2% during the period from 1992 through 1996. Average daily throughput in August, 1997 was 43,000 bbls/d. Approximately 42 producers and 19 shippers were served by the system in August, 1997, with production volumes from facilities operated by Amoco, Crestar and Phillips Petroleum together accounting for over 50% of the throughput volumes on the system in August, 1997.

The Mid-Saskatchewan Pipeline System was originally constructed in the early 1950s to serve oil fields in the Coleville and Smiley areas of west central Saskatchewan, and was acquired by Koch in 1973. Projects currently planned for the system include shipping capacity expansions in the Marengo area, expansion of the Smiley boost station and the construction of an additional 80,000 barrel storage tank at the Kerrobert terminal. These projects have an estimated aggregate cost of approximately \$2.5 million, and are anticipated to add approximately 5,700 bbls/d of throughput to the system by the first quarter of 1998.

### **Koch Valley Pipeline System**

The Koch Valley Pipeline System is a 151-mile condensate feeder pipeline system between Turner Valley and Madden in southwestern Alberta. The system has a throughput capacity of approximately 12,100 bbls/d, and transported approximately 6,400 bbls/d of condensate in 1996. The system receives condensate from the Nova Porcupine Hills Pipeline at Turner Valley, and from the Shell Jumping Pound and Petro-Canada Wildcat Hills gas plants to the west of Calgary for delivery into the Federated Cremona Pipeline.

The Koch Valley Pipeline System accounted for approximately 2% of the total volumes transported on the Pipelines in 1996. Shell and Petro-Canada produced 99% and 1%, respectively, of the throughput volumes transported on the system in August, 1997.

The pipeline between Turner Valley and the Priddis Junction was constructed during the 1930s and 1940s as part of the crude oil delivery system from the original Turner Valley oil fields to refineries then located in Calgary. One line has subsequently been used to transport condensate. The lines to the Jumping Pound and Wildcat Hills gas plants and the Madden meter station were built in the late 1960s and in 1993, respectively. Koch acquired the system in 1992.

Throughput volumes on the Koch Valley Pipeline System have been relatively constant over the past several years. Alternatives are being considered for increasing volumes on the system, including the possible conversion of

the system to transportation of natural gas liquids. A number of exploration and development projects are currently underway in the southern Alberta foothills, including those in the Moose Mountain, Waterton and Racehorse Creek areas.

### Partnership's Business Strategy

Historically, Koch has grown its Canadian pipeline business by providing an integrated package of services to crude oil producers and shippers. The Partnership expects that, while the General Partner is an affiliate of Koch and is the general partner of the Partnership, it should benefit from the experience and relationships Koch has developed over the past 38 years in acquiring, operating and expanding its crude oil pipeline business in Canada. The Partnership intends to pursue new business and expansion opportunities generated by exploration, development and exploitation activities undertaken in areas serviced by the Pipelines. The Partnership anticipates that it will continue to invest capital to pursue new connection opportunities, expand facilities and assets, segregate and/or blend different crude oil streams, build or acquire new assets and actively manage its asset base.

### Summary of Financial Forecast

The financial forecast has been prepared by the management of the General Partner on behalf of the Partnership with an effective date of November 18, 1997 on the basis of assumptions made by the management of the General Partner. These assumptions are based on the judgment of the management of the General Partner of the most likely set of conditions and the Partnership's most likely course of action, based on information existing at the date the forecast was prepared. The assumptions used in the preparation of the forecast, although considered reasonable by the General Partner at the time of preparation, may prove to be incorrect.

**Actual results for the forecast period will vary from the forecast results and variations may be material. There is no representation by the General Partner that actual results achieved during the forecast period will be the same, in whole or in part, as those forecasted herein. See "Financial Forecast of Koch Pipelines Canada, L.P."**

|  | Forecast<br>Year Ended<br>December 31,<br>1998 <sup>(1)</sup> |
|--|---|
|  | (thousands except<br>per Class A Unit<br>amounts)             |
| Revenue .....  | \$94,459  |
| Operating expenses .....                                 | 22,114  |
| General and administrative expenses .....                | 4,745   |
| Management fee .....                                     | 1,370   |
| Net income .....   | <u>\$15,300</u>   |
| Distributable Cash .....                                 | <u>\$64,413</u>   |
| Distributable Cash Per Class A Unit <sup>(2)</sup> ..... | <u>\$ 0.88</u>  |

#### Notes:

- (1) The forecast is for the period from January 1, 1998 to December 31, 1998. Unitholders will also be entitled to receive a distribution in respect of the initial period from closing of the offering, which is expected to occur on or about November 27, 1997, to December 31, 1997.
- (2) Distributable Cash per Class A Unit is based on the Class A Unit pro rata share of Distributable Cash and the number of Class A Units outstanding for the year.

## Summary of Selected Financial Information and Operating Data for the Pipeline Assets

The following tables set forth a summary of selected financial information from the audited and unaudited combined financial statements for the Pipeline Assets for the periods indicated, as well as operating data. The combined financial statements are found commencing on page 84.

### Selected Financial Information

|   | Seven Months ended<br>July 31, |                     | Year ended December 31, |               |               |
|---|--------------------------------|---------------------|-------------------------|---------------|---------------|
|   | 1997<br>(unaudited)            | 1996<br>(unaudited) | 1996                    | 1995          | 1994          |
| (thousands of dollars)                    |                                |                     |                         |               |               |
| Revenue .....                             | 45,955                         | 44,788              | 79,369                  | 74,987        | 65,387        |
| Operating expenses .....                  | (13,014)                       | (10,176)            | (18,628)                | (18,611)      | (17,435)      |
| General and administrative expenses ..... | (1,669)                        | (1,484)             | (3,024)                 | (2,738)       | (2,718)       |
| Income before depreciation .....          | 31,272                         | 33,128              | 57,717                  | 53,638        | 45,234        |
| Depreciation .....                        | (4,162)                        | (3,945)             | (6,788)                 | (5,870)       | (5,377)       |
| Net income before tax .....               | <u>27,110</u>                  | <u>29,183</u>       | <u>50,929</u>           | <u>47,768</u> | <u>39,857</u> |
| Maintenance capital expenditures .....    | 2,386                          | 486                 | 1,131                   | 1,283         | 1,141         |
| Development capital expenditures .....    | <u>7,286</u>                   | <u>16,904</u>       | <u>23,432</u>           | <u>21,669</u> | <u>16,956</u> |
| Capital expenditures .....                | <u>9,672</u>                   | <u>17,390</u>       | <u>24,563</u>           | <u>22,952</u> | <u>18,097</u> |

### Selected Operating Data

Average daily throughput of crude oil and condensate on the Pipelines for the periods indicated is set forth in the following table.

|  | Eight Months<br>ended<br>August 31, <sup>(1)</sup> |              | Year ended December 31, |              |              |              |              |
|--|--|--------------|-------------------------|--------------|--------------|--------------|--------------|
|  | 1997 <sup>(2)</sup>                                | 1996         | 1996                    | 1995         | 1994         | 1993         | 1992         |
| (thousands of barrels per day)         |  |              |                         |              |              |              |              |
| Average daily throughput               |  |              |                         |              |              |              |              |
| Bow River Pipeline System .....        | 189.9  | 197.8        | 197.8                   | 191.6        | 169.6        | 153.9        | 148.1        |
| Koch Alberta Pipeline System .....     | 63.2   | 64.7         | 66.7                    | 66.0         | 61.3         | 57.7         | 54.9         |
| Mid-Saskatchewan Pipeline System ..... | 40.8   | 29.2         | 32.1                    | 27.3         | 23.4         | 22.4         | 17.6         |
| Koch Valley Pipeline System .....      | <u>7.0</u>   | <u>5.9</u>   | <u>6.4</u>              | <u>6.1</u>   | <u>6.7</u>   | <u>6.7</u>   | <u>7.6</u>   |
| Total .....                            | <u>300.9</u>                                       | <u>297.6</u> | <u>303.0</u>            | <u>291.0</u> | <u>261.0</u> | <u>240.7</u> | <u>228.2</u> |

Notes:

(1) Throughput on the Pipelines is generally lower during the period from mid-March through early June due to seasonal factors such as road restrictions and battery maintenance which reduce crude oil receipts.

(2) In addition to usual seasonal factors, throughput on the Pipelines was also reduced during March and April of 1997 as a result of operational disruptions on the IPL Pipeline.

Average daily throughput on the Pipelines has increased at a compound annual growth rate of 7.3% during the period from 1992 through 1996. Average daily throughput was 314,300 bbls for the month of August, 1997.

## **Governance**

The Partnership was formed as a limited partnership in order for Limited Partners to benefit from limited liability and, accordingly, Limited Partners are not permitted, in that capacity, to, among other things, take part in the administration, management, control or operation of the business of the Partnership. Pursuant to the Partnership Agreement, the General Partner has full power and exclusive authority to administer, manage, control and operate the business of the Partnership subject to certain limitations described under “The Partnership Agreement — Restrictions on Authority of General Partner”. The Partnership Agreement requires, however, that the General Partner have not more than seven directors of which not less than three must be Independent Directors. The Partnership Agreement further provides that during any period in which Koch Industries and its affiliates own, directly or indirectly, less than 30% of the issued and outstanding Units, not less than four of the directors of the General Partner must be Independent Directors.

## **Compensation Arrangements**

The Partnership Agreement provides for an annual base fee equal to 2.0% of the Partnership’s annual Operating Cash to be paid to the General Partner. In addition, as an incentive for the General Partner to enhance the profitability of the Partnership and the cash distributions paid to Limited Partners, the General Partner will be entitled to earn incentive fees which will be payable annually in the amount of 15% of available Distributable Cash in excess of \$1.01 per Unit annually but less than or equal to \$1.10 per Unit annually, 25% of available Distributable Cash in excess of \$1.10 per Unit annually but less than or equal to \$1.19 per Unit annually and 35% of available Distributable Cash in excess of \$1.19 per Unit annually. The General Partner will also be paid an acquisition fee equal to 1.0% of the purchase price of any New Assets acquired by the Partnership and a disposition fee equal to 0.5% of the sale price of any assets sold by the Partnership. No acquisition fee will be payable in connection with the purchase of the Pipeline Assets by the Partnership. The General Partner will also be reimbursed for its general and administrative and other costs reasonably incurred in fulfilling the obligations of the General Partner to the Partnership, pursuant to the Partnership Agreement. All of the foregoing compensation arrangements and resulting payments to the General Partner are in addition to the distributions which will be made to the General Partner in respect of the Units held by it from time to time. See “The Partnership Agreement — Compensation and Reimbursement of General Partner”.

## **Conflicts of Interest**

Certain conflicts of interest could arise because of the relationship among Koch and its affiliates, including the General Partner, and the Partnership. The Partnership Agreement contains provisions that allow the General Partner to take into account the interests of parties in addition to the Partnership in resolving conflicts of interest, and provisions that may restrict the remedies available to holders of Class A Units for actions taken that might otherwise constitute breaches of fiduciary duty. See “Conflicts of Interest and Fiduciary Responsibility”.

## **Risk Factors**

Investment in the Class A Units is subject to a number of risks. The business of the Partnership is subject to the normal risks associated with the pipeline industry, including government and environmental regulation. In addition, the Partnership will be dependent upon the ability of the General Partner to manage the operations of the Partnership. Distributions to holders of Class A Units will be dependent upon the amount of Distributable Cash. Distributable Cash will, in turn, be entirely dependent upon the results of operations from the Pipeline Assets. Other risks include: (i) an absence of prior public markets for the Class A Units; (ii) no assurance of available capital for capital expenditures; (iii) financial risk of Partnership borrowing; (iv) dilution resulting from issuance of additional Class A Units; (v) certain conflicts of interest arising from the General Partner’s relationship with Koch; (vi) no guaranteed rate of return on the Class A Units; (vii) limitations on Limited Partners’ ability to vote, manage and control the Partnership and remove the General Partner; (viii) loss of limited liability protection where a Limited Partner takes part in the control of the business of the Partnership; (ix) variations in actual results from forecast results for the forecast period; (x) competition; (xi) regulatory intervention; (xii) pipeline abandonment costs; (xiii) operational factors; (xiv) declining reserves or reductions in demand for crude oil leading to reductions in throughput and Distributable Cash; (xv) environmental costs and liabilities; (xvi) loss of association with Koch; (xvii) inherent capital gain in the Pipeline Assets; (xviii) failure of the General Partner to have sufficient assets to honor its indemnification; (xix) fluctuating distributions; (xx) limitations on the fiduciary obligations of the General Partner; and (xxi) sensitivity to a variety of market conditions including, but not limited to, interest rates. See “Risk Factors”.

## GLOSSARY

Terms used in this prospectus but not otherwise defined have the meanings set forth below:

**“Act”** means the *Business Corporations Act*, S.A. 1981, c. B-15, as amended.

**“affiliate”** has the meaning ascribed thereto in the Partnership Agreement.

**“Asset Purchase Agreement”** means the agreement to be dated the date of closing of this offering between the General Partner and the Partnership pursuant to which the Partnership will purchase the Pipeline Assets in exchange for 35,700,000 Class B Units issuable on closing and cash of \$353,312,500, payable as to \$203,312,500 on closing and as to \$150,000,000 on the first anniversary of closing and includes a construction agreement between Bow River Pipe Lines Ltd., an affiliate of the General Partner, and the Partnership as described under “The Partnership — Acquisition of the Pipeline Assets” and a pipeline inspection and repair agreement between Bow River Pipe Lines Ltd. and the Partnership as described under “Other Matters Relating to the Pipeline Assets — Pipeline Integrity and Environmental Matters”, each of which will be dated the date of closing of this offering.

**“associate”** has the meaning ascribed thereto in the *Securities Act* (Alberta).

**“Board of Directors”** means the board of directors from time to time of the General Partner.

**“Bow River Pipeline System”** means the 1,525-mile crude oil feeder pipeline and gathering system between Hardisty, Alberta and Milk River, Alberta owned and operated by Bow River Pipe Lines Ltd. See “Business and Assets of the Partnership — Bow River Pipeline System”.

**“Class A Units”** means Class A limited partnership units of the Partnership which are to be distributed to the public pursuant to this offering.

**“Class B Units”** means Class B unlimited liability units of the Partnership which are to be held by the General Partner.

**“Custodian”** means The Trust Company of Bank of Montreal.

**“Distributable Cash”** means the cash to be distributed to Unitholders in respect of each calendar quarter, as more fully described under “The Partnership Agreement — Calculation of Distributable Cash”.

**“Express Pipeline”** means the Express Pipeline system which extends from Hardisty, Alberta to Casper, Wyoming.

**“General Partner”** means Koch Pipelines Canada Ltd., an indirect wholly-owned subsidiary of Koch Industries, incorporated under the laws of Alberta.

**“Independent Directors”** means those members of the Board of Directors of the General Partner who are not officers, directors or employees of Koch (other than the General Partner).

**“Instalment Receipts”** means the instalment receipts representing Class A Units to be issued pursuant to the Instalment Receipt Agreement.

**“Instalment Receipt Agreement”** means the instalment receipt agreement to be dated the date of closing of this offering among the Partnership, the Underwriters, the Custodian and the Security Agent.

**“IPL Pipeline”** means the Interprovincial Pipe Line system which extends from Edmonton, Alberta to Ontario.

**“Koch Alberta Pipeline System”** means the 390-mile crude oil feeder pipeline and gathering system between Hussar, Alberta and Edmonton, Alberta owned and operated by Koch Pipelines Ltd. See “Business and Assets of the Partnership — Koch Alberta Pipeline System”.

**“Koch”** means Koch Industries and its direct and indirect subsidiaries. Koch’s operations, including its ownership and operation of the Pipeline Assets, are carried on through various direct and indirect wholly-owned subsidiaries.

**“Koch Canada”** means Bow River Pipe Lines Ltd., Mid-Saskatchewan Pipe Lines, Ltd., Koch Pipelines Ltd., Koch Oil Co. Ltd. and, unless the context requires otherwise, includes their respective subsidiaries.

**“Koch Industries”** means Koch Industries, Inc., a Kansas corporation.

**“Koch Valley Pipeline System”** means the 151-mile condensate feeder pipeline system between Turner Valley, Alberta and Madden, Alberta currently owned and operated by Koch Pipelines Ltd. See “Business and Assets of the Partnership — Koch Valley Pipeline System”.

**“Limited Partners”** means those persons, other than the General Partner, who from time to time hold Class A Units.

**“Mid-Saskatchewan Pipeline System”** means the 334-mile crude oil feeder pipeline and gathering system near Kindersley and Kerrobert, Saskatchewan currently owned and operated by Mid-Saskatchewan Pipe Lines, Ltd. See “Business and Assets of the Partnership — Mid-Saskatchewan Pipeline System”.

**“New Assets”** means assets other than the Pipeline Assets, if any, acquired by the Partnership from time to time after closing of this offering.

**“Non-Competition Agreement”** means the agreement to be dated the date of closing of this offering between the General Partner and the Partnership pursuant to which the General Partner will agree to certain restrictions on business activities that may be in competition with the Partnership.

**“Operating Cash”** means the operating cash of the Partnership as more fully described under “The Partnership Agreement — Calculation of Distributable Cash”.

**“Partners”** means the General Partner, the Limited Partners and the holders of Class B Units.

**“Partnership”** means Koch Pipelines Canada, L.P., the limited partnership established pursuant to the Partnership Agreement.

**“Partnership Agreement”** means the limited partnership agreement dated as of October 9, 1997, among the General Partner, 687371 Alberta Ltd. as the initial limited partner and each person who is admitted to the Partnership as a Unitholder, a copy of which is appended to this prospectus.

**“Partnership Interest”** means an ownership interest in the Partnership represented by Units.

**“person”** has the meaning ascribed thereto in the Partnership Agreement.

**“Pipeline Assets” or “Pipelines”** means all of the right, title and interest in the Bow River Pipeline System, Koch Alberta Pipeline System, Mid-Saskatchewan Pipeline System and Koch Valley Pipeline System, and certain miscellaneous assets used in connection with the operation of the foregoing pipeline systems (see “The Partnership — Acquisition of the Pipeline Assets”), currently owned by Koch Canada and to be acquired by the Partnership pursuant to the Asset Purchase Agreement.

**“Security Agent”** means CIBC Mellon Trust Company.

**“subsidiary”** has the meaning ascribed thereto in the Partnership Agreement.

**“Support Agreement”** means the agreement to be dated the date of closing of this offering pursuant to which Koch will agree to provide the necessary personnel and services to the General Partner to permit the General Partner to fulfill its obligations to administer and manage the Partnership and to operate its business under the Partnership Agreement.

**“Tax Act”** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended.

**“Trans Mountain Pipeline”** means the Trans Mountain Pipeline system which extends from Edmonton, Alberta to the Vancouver, British Columbia area.

**“Underwriting Agreement”** means the underwriting agreement dated November 18, 1997 among the Partnership, Koch Industries and the Underwriters.

**“Underwriters”** means, collectively, RBC Dominion Securities Inc., as lead underwriter, ScotiaMcLeod Inc., Nesbitt Burns Inc., CIBC Wood Gundy Securities Inc., Midland Walwyn Capital Inc., Goldman Sachs Canada, Lévesque Beaubien Geoffrion Inc., TD Securities Inc., Gordon Capital Corporation and Newcrest Capital Inc.

**“Unit”** means a Class A Unit or Class B Unit, as applicable.

**“Unitholders”** means, collectively, the holders of Class A Units and Class B Units.

The following are definitions of certain technical terms used in this prospectus:

**“batching”** means the sequential transportation of different crude oils or products through the same pipeline.

**“condensate”** means a mixture mainly of pentanes and heavier hydrocarbons that is recovered or recoverable from a natural gas well, and that may be gaseous in its reservoir state, but is liquid at standard conditions (ie. at typical atmospheric temperature and pressure).

**“crude oil”** means the direct liquid product from oil wells, as distinguished from refined oils manufactured out of it, and, unless the context otherwise requires, includes condensate.

**“diluent”** means a fluid added to heavier crude oils to reduce the viscosity of the crude oil and improve its transmissability through a pipeline. Condensate is the diluent used on the Bow River and Mid-Saskatchewan Pipeline Systems.

**“heavy blend crude oil”** refers to medium or heavy crude oils when blended with condensate.

**“heavy crude oil”** means crude oil having a gravity less than 25° API (or a density greater than 904 kg/m<sup>3</sup>).

**“lateral”** means a crude oil pipeline that gathers crude oil directly from local crude oil production sites and delivers it, directly or indirectly, through other gathering pipelines to a pipeline system.

**“light sour crude oil”** means crude oil having a gravity greater than 30° API (or a density less than 875 kg/m<sup>3</sup>) and which has a sulphur content greater than 0.5% by weight.

**“light sweet crude oil”** means crude oil having a gravity greater than 30° API (or a density less than 875 kg/m<sup>3</sup>) and which has a sulphur content less than or equal to 0.5% by weight.

**“looping”** means the construction of additional pipeline where each end of that additional pipeline connects to an existing pipeline system, the purpose of which is to increase the throughput capacity of the pipeline system.

**“medium crude oil”** means crude oil having a gravity greater than 25° API (or a density less than 904 kg/m<sup>3</sup>) but less than 30° API (or a density greater than 875 kg/m<sup>3</sup>).

**“pigging”** means sending a cleaning tool through a pipeline segment, carried by the flow of the fluid in the pipeline, which is designed to remove accumulations of water, wax or other foreign material from the interior of the pipeline.

**“producer”** means the operator or owner of crude oil production with whom arrangements are made for pipeline connections.

**“SCADA”** means supervisory control and data acquisition. See “Other Matters Relating to the Pipeline Assets — Pipeline Integrity and Environmental Matters”.

**“suspended”** means that the operation of a pipeline or pipeline segment is discontinued but the line is managed as if it is active including the maintenance of corrosion control measures. A suspended pipeline or pipeline segment may be returned to active service with the consent of the applicable regulatory authority which generally would require testing to verify the line’s integrity.

**“tariff”** means a schedule of tolls, terms and conditions, classifications, practices or rules and regulations applicable to the provision of hydrocarbon transportation services on a pipeline.

**“toll”** means any rate, toll or allowance charged or made for the transportation of hydrocarbons through a pipeline or for storage.

In this prospectus, the following defined items for certain corporations refer to that corporation as well as related parties (including predecessors) thereto: (i) “AEC” means AEC Oil and Gas, a division of Alberta Energy Company, Ltd.; (ii) “Amoco” means Amoco Canada Petroleum Company Ltd.; (iii) “Canadian Natural” means Canadian Natural Resources Ltd.; (iv) “Crestar” means Crestar Energy Inc.; (v) “Federated” means Federated Pipe Lines Ltd.; (vi) “Gibson” means Gibson Petroleum Company Limited; (vii) “Gulf Canada” means Gulf Canada Resources Ltd.; (viii) “Manito” means Manito Pipelines Ltd.; (ix) “Mobil” means Mobil Oil Canada; (x) “Murphy” means Murphy Oil Company Ltd.; (xi) “Norcen” means Norcen Energy Resources Limited; (xii) “Northridge” means Northridge Petroleum Marketing Inc.; (xiii) “Nova” means NOVA Corporation; (xiv) “PanCanadian” means PanCanadian Petroleum Limited; (xv) “Petro-Canada” means Petro-Canada; (xvi) “Pinnacle” means Pinnacle Resources Ltd.; (xvii) “Renaissance” means Renaissance Energy Ltd.; (xviii) “Shell” means Shell Canada Limited; (xix) “Stampeder” means Stampeder Exploration Ltd.; (xx) “Ulster” means Ulster Petroleums Ltd.; and (xxi) “Wascana” means Wascana Energy Inc.

## ABBREVIATIONS AND CONVERSIONS

In this prospectus, the following abbreviations have the indicated meanings.

|              |   |
|--------------|---|
| bbl and bbls | barrel and barrels, each barrel representing 34.973 Imperial gallons or 42 U.S. gallons |
| mbbls        | thousand barrels  |
| mmbbls       | million barrels   |
| bbls/d       | barrels per day   |
| mbbls/d      | thousand of barrels per day   |
| API          | American Petroleum Institute  |
| kg           | kilograms   |

The following table sets forth certain standard conversions between Standard Imperial Units and the International Systems of Units (or metric Units).

| <u>To Convert From</u>           | <u>To</u>                        | <u>Multiply By</u> |
|----------------------------------|----------------------------------|--------------------|
| cubic metres                     | cubic feet ("ft <sup>3</sup> ")  | 35.494             |
| bbls                             | cubic metres ("m <sup>3</sup> ") | 0.1590             |
| cubic metres ("m <sup>3</sup> ") | bbls oil                         | 6.2898             |
| inches                           | centimetres                      | 2.5400             |
| centimetres                      | inches                           | 0.3937             |
| feet                             | metres                           | 0.3048             |
| metres                           | feet                             | 3.2808             |
| miles                            | kilometres                       | 1.6093             |
| kilometres                       | miles                            | 0.6214             |
| acres                            | hectares                         | 0.4047             |
| hectares                         | acres                            | 2.4711             |
| pounds/square inch (psig)        | kilopascals (kPa)                | 6.8948             |
| kilopascals (kPa)                | pounds/square inch (psig)        | 0.1450             |

*All monetary amounts set forth in this prospectus are in Canadian dollars except where otherwise indicated.*

## THE PARTNERSHIP

The Partnership was formed pursuant to the Partnership Agreement, and on October 9, 1997, was registered as a limited partnership under the laws of the Province of Alberta. The principal place of business of the Partnership is located at 1400, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6.

The Partnership is only permitted to carry on activities which are directly or indirectly related to the transportation, storage, marketing and processing of hydrocarbons, and holding investments in other entities which are primarily engaged in these activities. The Partnership intends initially to engage in the transportation of crude oil and condensate, utilizing the Pipeline Assets which will be held by the Partnership upon the closing of this offering.

### Acquisition of the Pipeline Assets

The Partnership will enter into the Asset Purchase Agreement with the General Partner to acquire the Pipeline Assets from the General Partner for an aggregate purchase price of approximately \$689.7 million, to be satisfied in full by the issuance of 35,700,000 Class B Units on closing, representing a Partnership Interest of approximately 48.8%, and the payment of \$353.3 million in cash, payable as to \$203.3 million on closing and as to \$150.0 million on the first anniversary of closing. The deferred portion of the purchase price will be secured by an assignment to the General Partner of the Partnership's entitlement to the final instalment under the Instalment Receipts and its rights and entitlements under the pledge of the Class A Units. The recourse of the General Partner against the Partnership in respect of the deferred portion of the purchase price will be limited to the assignment of the rights and entitlements of the Partnership under the Instalment Receipt Agreement. There will not be any recourse by the General Partner to the Partnership in respect of any final instalments under the Instalment Receipts that are not paid. The Partnership's commitment to acquire, and the General Partner's commitment to transfer, the Pipeline Assets under the Asset Purchase Agreement will be subject to, among other things, the completion of this offering. The book value of the Pipeline Assets to Koch Canada at July 31, 1997 was approximately \$210 million.

In addition to the pipelines, the Pipeline Assets to be acquired by the Partnership include 14 crude oil truck terminals, 10 condensate truck terminals, 18 pump stations, and storage tanks with a total storage capacity of approximately 1.1 million bbls, as well as other miscellaneous assets used in connection with the operation of the Pipelines.

Bow River Pipe Lines Ltd., an affiliate of the General Partner, has agreed in connection with the Asset Purchase Agreement to pay directly or reimburse the Partnership for the costs associated with the capital expansion projects on the Pipelines which are currently approved or underway at an estimated cost of \$20.7 million. See "Other Matters Relating to the Pipeline Assets — Capital Expansion Projects".

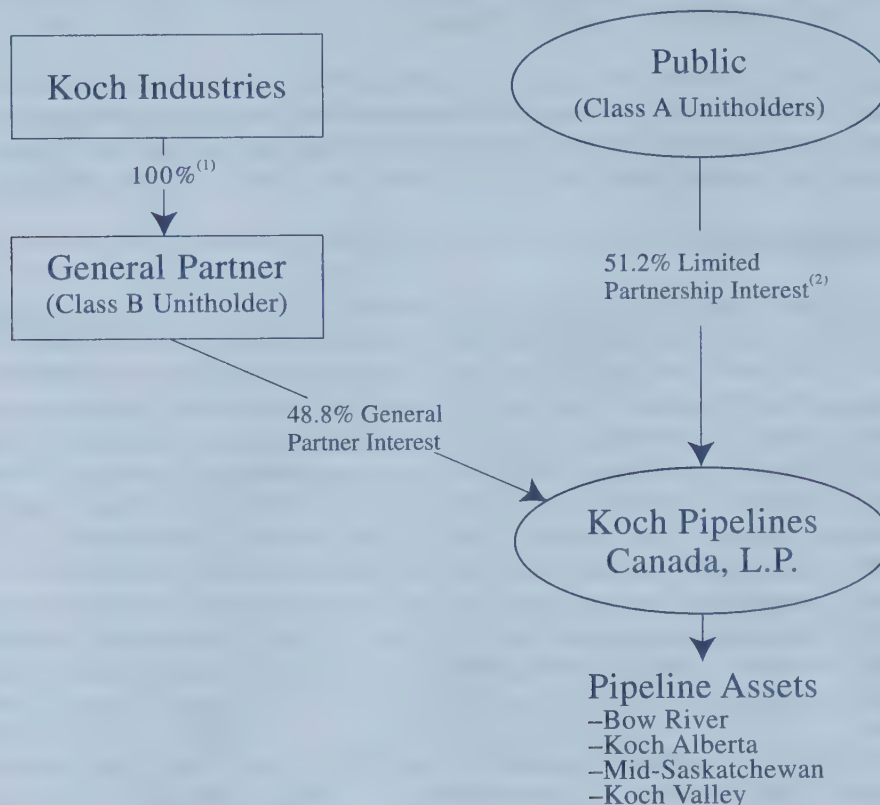
The purchase of the Pipeline Assets by the Partnership pursuant to the Asset Purchase Agreement will be effected on a tax-deferred basis under the Tax Act and, accordingly, the Partnership's cost for tax purposes of the Pipeline Assets will be approximately \$353.3 million, being the cash consideration received or receivable by the General Partner pursuant to the Asset Purchase Agreement. See "Canadian Federal Income Tax Considerations".

### Quarterly Cash Distributions

The Partnership will distribute Distributable Cash to Partners on a quarterly basis. The Partnership anticipates distributing Distributable Cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of such quarter. Payments will be made on or about the 30th day after each record date. The distribution in respect of the initial period from closing to December 31, 1997 is expected to be paid on January 30, 1998 to Unitholders of record on December 31, 1997. As closing is expected to occur on or about November 27, 1997, the distribution in respect of the initial period will not reflect a full quarter of operations. See "The Partnership Agreement — Quarterly Cash Distributions".

## Ownership and Management Structure

The following chart summarizes the ownership and management structure of the Partnership upon closing of this offering and completion of the transfer of the Pipeline Assets to the Partnership.



### Notes:

- (1) Indirectly wholly-owned by Koch Industries.
- (2) On closing of this offering, Class A Unitholders will own 51.2% of the Partnership, subject to the obligation to pay the final instalment under the Instalment Receipt Agreement on or before November 27, 1998. The Class A Units will be pledged to the Partnership to secure the obligation to make the final instalment under the Instalment Receipt Agreement. The Partnership will assign its rights and entitlements under the Instalment Receipt Agreement as security to the General Partner. See "Details of the Offering — Instalment Receipts".

## OVERVIEW OF KOCH

Koch Industries, headquartered in Wichita, Kansas, was established in 1940, and, through its various direct and indirect subsidiaries (collectively, "Koch"), is active in virtually all phases of the oil and gas industry. Koch owns and operates one of North America's largest liquids pipeline systems which includes more than 31 crude oil, refined products, natural gas liquids, ammonia and natural gas pipelines in Canada and the United States. Koch is also involved in chemicals, chemical technology products, asphalt products, energy services, minerals, capital services and agriculture. *Forbes* Magazine recently ranked Koch as the second largest privately held company in the United States based on revenues, which were in excess of U.S.\$28 billion in calendar 1996, representing a more than 100-fold growth in revenues since 1967.

Koch's presence in the Canadian pipeline business began in 1959 with the purchase of an interest in the Pine Bend Refinery in Minnesota. As part of that acquisition, Koch acquired its first Canadian business interest, a 20% equity interest in the South Saskatchewan Pipeline System. Five years later, Koch and a partner built the Bow River Pipeline System. In 1973, Koch acquired the remaining 50% interest in the Bow River Pipeline System, and expanded its Canadian pipeline operations with the purchase of the Mid-Saskatchewan Pipeline System. Koch acquired the Koch Alberta Pipeline System in 1991 and the Koch Valley Pipeline System in 1992.

Since 1959, Koch has grown to become the largest exporter and one of the largest refiners of Canadian crude oil. Koch is also the largest shipper of crude oil on the IPL Pipeline, accounting for over 14% of total crude oil

volumes shipped on the IPL Pipeline in 1996. In addition to its Canadian crude oil marketing and pipeline businesses, Koch is engaged in oil and gas exploration and production, natural gas marketing, capital services and crude oil trucking in western Canada. Koch also owns a non-operated 50% interest in the South Saskatchewan pipeline system, a feeder pipeline system located in Saskatchewan, which will not be acquired by the Partnership.

Koch is involved in the following businesses:

*Refined Products Group:* Refines crude oil to produce and market various refined products including gasoline, diesel fuel and jet fuel. Refining operations include a crude oil refinery in Rosemount (Pine Bend), Minnesota and crude oil refineries in Corpus Christi, Texas, as well as the operation of refined products pipelines.

*Chemical Group:* The Corpus Christi refinery operations include a petrochemical complex where aromatic petrochemical intermediates are produced and marketed. The chemicals are used by third parties in the production of various products such as fibers, plastics and solvents.

*Crude Oil Services Group:* Consists of United States and Canadian crude oil transportation (including pipeline, trucking, and other transportation), trading and Canadian exploration activities. This group provides the primary transportation and supply networks to the Corpus Christi and Pine Bend Systems, as well as to third parties.

*Energy Services Group:* Engages in energy and power trading, and natural gas trading and marketing on behalf of Koch owned facilities and external customers, including trading futures and derivatives for profit. The Energy Services Group also includes the natural gas pipeline network of Koch Gateway Pipeline Company, as well as gathering and processing services.

*Gas Liquids Group:* Includes natural gas liquids fractionation plants, as well as the operation of natural gas liquids pipelines. The Gas Liquids Group also trades and markets various natural gas liquids products.

*Materials Group:* Manufactures asphalt based products for the construction industry. The Materials Group consists of two core businesses, paving asphalt and industrial asphalt. Asphalt cement and asphalt emulsions produced by the group are marketed through a network of production and terminal facilities in the United States and Canada.

*Mineral Services Group:* Consists of sulphur, carbon dioxide, petroleum coke, and coal businesses. These businesses are primarily engaged in the transportation, handling and marketing of dry bulk commodities directly to end-users in a variety of industries such as cement, lime, steel, utility, pulp and paper, aluminum, refining, water treatment, semiconductors and fertilizer.

*Chemical Technology Group:* Operates facilities in the United States, Canada, Europe and Japan that manufacture and/or sell a broad range of process equipment and systems for the chemical processing, oil refining and oil field production industries and other industrial markets. The group also manufactures industrial flares and burners and produces polymeric membrane modules and systems for automotive, food, dairy and other markets.

*Agriculture Group:* Operates throughout the United States' midwest and Pacific northwest. Operations include cattle ranches, feedlots, grain storage and merchandising, grain trading, milling, fertilizer and agricultural chemicals distribution, and oil seed and feed processing. The nitrogen products division produces, transports and markets anhydrous ammonia and other nitrogen products. Facilities include a production facility at Sterlington, Louisiana, a pipeline system and terminals.

*Capital Services Group:* Manages Koch's global securities and foreign exchange trading, provides customer financing and leasing services, provides internal financial advisory services, and manages a diversified investment portfolio for Koch, including real estate.

Koch Canada currently owns and operates the Pipeline Assets. Upon closing of the offering, the General Partner, an indirect, wholly-owned subsidiary of Koch Industries, will hold Class B Units representing a 48.8% Partnership Interest. Koch may initiate, pursue or participate in pipeline investments outside of the Partnership. Such investment opportunities may or may not be offered to the Partnership. See "Conflicts of Interest and Fiduciary Responsibility".

## BUSINESS AND ASSETS OF THE PARTNERSHIP

### Introduction

The Partnership will, on the closing of this offering, acquire the Canadian crude oil pipelines and related assets owned and operated by Koch Canada. The Pipeline Assets are comprised of Koch Canada's 100% interests in the Bow River, Koch Alberta, Mid-Saskatchewan and Koch Valley Pipeline Systems.

The Bow River Pipeline System gathers heavy blend and light sour crude oil from established producing fields in southeastern Alberta north for delivery to the IPL and Express Pipelines at Hardisty, Alberta, the second largest injection hub for delivery of crude oil into the IPL Pipeline, and south to the Murphy-owned pipeline at Milk River, Alberta for delivery to pipelines with connections to refineries at Billings, Montana. The Koch Alberta Pipeline System gathers light sour crude oil from established producing fields in south-central Alberta for delivery to refineries at Edmonton and for delivery to the IPL and Trans Mountain Pipelines and also delivers light sweet crude oil to the Amoco Rangeland Pipeline near Joffre, Alberta. The Mid-Saskatchewan Pipeline System gathers heavy blend and light sweet crude oils from established producing fields in west central Saskatchewan for delivery to the IPL Pipeline at Kerrobert, Saskatchewan. The Koch Valley Pipeline System transports condensate received from the Nova Porcupine Hills Pipeline at Turner Valley, Alberta and from the Wildcat Hills and Jumping Pound gas plants to the Federated Cremona Pipeline at Madden, Alberta.

The Pipeline Assets and associated business have the following characteristics:

*Strong Market Position:* The Pipelines consist of approximately 2,400 miles of pipeline in total and constitute one of the largest crude oil feeder pipeline businesses in Canada, transporting approximately 303,000 bbls/d of crude oil in 1996 representing approximately 19.4% of Canadian conventional crude oil and condensate production. In 1996, the areas serviced by the Pipelines in Alberta contained approximately 25% of Alberta's estimated remaining recoverable conventional crude oil reserves. The areas serviced by the Mid-Saskatchewan Pipeline System contained approximately 10% of Saskatchewan's estimated remaining recoverable conventional crude oil reserves in 1995.

*History of Growth:* From 1992 through 1996, the Pipelines, on a consolidated basis, have experienced growing revenue, cash flow and profitability, which have resulted from increasing throughput and growth in revenue per barrel. Throughput on the Pipelines has increased by 32.8% over this period, representing an aggregate annual compound growth rate of 7.3%.

*Reserve Stability:* Government studies estimate that remaining recoverable crude oil reserves in areas serviced by the Bow River and Koch Alberta Pipeline Systems have increased from approximately 430 mmbbls in 1988 to approximately 540 mmbbls in 1996 and, in the areas serviced by the Mid-Saskatchewan Pipeline System, have remained relatively constant at approximately 96 mmbbls from 1988 to 1995. Over this period, approximately 800 mmbbls of crude oil have been produced from the areas serviced by the Bow River and Koch Alberta Pipeline Systems and approximately 63 mmbbls have been produced from the areas serviced by the Mid-Saskatchewan Pipeline System. While reserve additions and increased recovery rates have historically tended to offset natural declines in crude oil production in the areas served by the Pipelines, there can be no assurance that such developments will continue in the future. See "— Reserves".

*Diversified Production and Customer Base:* The Pipelines gather and transport crude oil from over 2,000 producing reservoirs, in approximately 200 fields, on approximately 22 million acres of oil and gas lands in Alberta and Saskatchewan, and provided crude oil transportation services to approximately 154 producers and 44 shippers in August, 1997. These customers include some of the largest oil and gas exploration and production companies in Canada including AEC, Amoco, Canadian Natural, Crestar, Gulf Canada, Mobil, Norcen, PanCanadian, Renaissance and Wascana.

*Experienced Management:* Through the General Partner, the Partnership should benefit from the experience and capabilities which Koch has developed in building and operating one of the largest liquids pipeline businesses in North America. Koch Industries, through the General Partner, will retain an indirect 48.8% interest in the Partnership. The General Partner has agreed not to voluntarily withdraw as general partner for a period of five years from the closing of the offering except in certain limited circumstances.

*Reliable Operations:* The Pipeline Assets have benefitted from maintenance programs developed and administered by Koch Canada and have experienced infrequent environmental incidents. The Pipelines have also

benefitted from being monitored from Koch's pipeline control centre located in Wichita, Kansas, which monitors and dispatches operating orders to approximately 31 of Koch's pipeline systems.

*Opportunities for Growth:* The Pipelines have generally experienced increasing throughputs over the last several years, and capital projects are currently approved or underway with an aggregate estimated cost of approximately \$20.7 million which are anticipated to add a total of approximately 26,300 bbls/d of throughput to the Pipelines by the end of the first quarter of 1998. Koch will be responsible for the costs associated with these expansion projects.

### **Relationship with Koch's Pipeline and Refinery Business**

The Pipelines play a significant role in Koch's upper midwest United States refining business. Koch's Pine Bend Refinery, located in Rosemount, Minnesota, near Minneapolis/St. Paul, is a major supplier of refined crude oil products in Minnesota and Wisconsin and other upper midwest United States markets and is one of the largest refiners of Canadian crude oil. The refinery's supply of Canadian crude oil is supported by the Pipelines, as a portion of the crude oil gathered by the Pipelines is ultimately delivered to the refinery via the IPL Pipeline and the Minnesota Pipeline. Since it acquired a controlling interest in the Pine Bend Refinery in 1969, Koch has substantially increased the refinery's charge capacity to in excess of 250,000 barrels per calendar day.

Koch is the largest exporter and one of the largest refiners of Canadian crude oil and provides various services to approximately 230 oil and gas producers and refiners in support of its Canadian crude oil purchasing and pipeline business. These services include the provision of (i) transportation and storage services; (ii) energy and foreign exchange risk management services, (iii) capital services, and (iv) crude oil and natural gas marketing and physical trading services. The Canadian crude oil purchasing and transportation services are also supported by the Canadian oil and gas exploration and production business of Koch Canada, which consists of approximately 13,500 bbls/d of production of predominantly heavy crude oil from approximately 1,000,000 net acres of oil and gas lands in western Canada.

The pipeline control centre for Koch's crude oil, refined products, natural gas, ammonia and natural gas liquids pipelines is located in Wichita, Kansas. Approximately 31 of Koch's pipeline systems are regularly monitored and operating orders are dispatched from this centre which is staffed 24 hours a day, seven days a week. Economies of scale are achieved by monitoring a large number of pipelines from one control centre resulting in: fewer man hours required to operate any single pipeline system; improved back-up capabilities in the event of emergencies; increased opportunities for employee training and development; and more efficient dedication of engineering and technical support services to SCADA system maintenance and improvements. See "Other Matters Relating to the Pipeline Assets — Pipeline Integrity and Environmental Matters".

### **Partnership's Business Strategy**

Historically, Koch has grown its Canadian pipeline business by providing an integrated package of services to crude oil producers and shippers. The Partnership expects that, while the General Partner is an affiliate of Koch and is the general partner of the Partnership, it should benefit from the experience and relationships Koch has developed over the past 38 years in acquiring, operating and expanding its crude oil pipeline business in Canada. The Partnership intends to pursue new business and expansion opportunities generated by exploration, development and exploitation activities undertaken in areas serviced by the Pipelines. The Partnership anticipates that it will continue to invest capital to pursue new connection opportunities, expand facilities and assets, segregate and/or blend different crude oil streams, build or acquire new assets and actively manage its asset base.

### **Pipeline Business Overview**

#### ***Feeder and Export Pipelines***

Crude oil and natural gas liquids produced in western Canada are delivered to market through extensive pipeline transportation systems. Feeder pipelines gather crude oil directly from production sites and facilities and deliver it primarily to: (i) regional refineries and end-users, or (ii) injection points on the major or secondary export pipelines for delivery to refineries, or to end-users elsewhere in Canada or in the United States. There are currently three major export pipeline systems in operation for transporting crude oil from western Canada to other markets: the IPL Pipeline, which extends from Edmonton, Alberta to the midwestern United States and Ontario markets; the Trans Mountain Pipeline, which extends from Edmonton to the Vancouver, British Columbia area; and the Express Pipeline, which extends from Hardisty, Alberta to Casper, Wyoming, providing access to the Rocky Mountain and

midwest areas of the United States. The IPL Pipeline is the primary transporter of crude oil from western Canada to the United States and central Canada, serving all of the major refining centres in the Great Lakes region of the United States and the Province of Ontario.

The volumes delivered to the IPL Pipeline by the Pipelines represented approximately 14% of the total crude oil volumes carried on the IPL Pipeline in 1996.

### ***Producer and Shipper Customers***

Feeder pipelines service two separate groups of customers: producers and shippers. Producers are the owners or operators of crude oil production with whom arrangements are made for pipeline connections to production sites, tolling matters, and other terms of transportation service. Shippers are the parties that arrange for the physical movement of crude oil with the feeder pipeline operators. Shippers take custody of the crude oil at the production site and are responsible for delivery arrangements at the outlet of the feeder pipeline. A shipper is typically the purchaser and marketer of a producer's crude oil. Shippers can be producers, refiners or third party marketing companies. A feeder pipeline is generally not reliant on production from a single supply source, but rather on the overall level of production, exploration and development activity in the producing region surrounding the pipeline. The Partnership will have no responsibility for the sale or marketing of the crude oil transported on the Pipelines.

In aggregate, the Pipelines received and transported crude oil and condensate from approximately 154 producers and 44 shippers in August, 1997. No single producer accounted for more than 15% of the throughput volumes on the Pipelines in August, 1997.

### ***Feeder Pipeline System Growth and Evolution***

Feeder pipeline systems grow and evolve in response to ongoing production activity in the areas they serve. Development drilling by production companies is often initially concentrated in a small area, with production from completed wells being transported by truck to a crude oil truck terminal located on a feeder pipeline serving the region. At the truck terminal the crude oil is off-loaded into tanks and then pumped into the feeder pipeline for transmission. When oil production has been established and production rates increase in the area, a producer or group of producers will typically construct an oil processing facility, known as a battery, to centralize production from the wells in an area, and remove sediment and water from the produced crude oil to meet the quality specifications for marketable crude oil. A feeder pipeline in the area will generally pursue direct connection of these battery sites to gathering segments, called laterals. Each lateral, in turn, delivers crude oil collected from a group of batteries to a larger diameter mainline transmission segment of the feeder pipeline.

The Pipelines currently provide connections to approximately 233 producer-owned batteries. A total of 18 Koch Canada and other third-party owned truck terminals also supply crude oil to the Pipelines. Crude oil receipts at truck terminals represented approximately 15% of volumes transported on the Pipelines in 1996. The 14 Koch Canada owned truck terminals are included in the Pipeline Assets to be acquired by the Partnership.

### ***Seasonality***

Crude oil receipts on feeder pipelines in western Canada generally decrease from mid-March through early June due to seasonal factors. During this period, many rural counties and municipal districts place weight restrictions on vehicles using local roads which can reduce the volume of crude oil delivered by truck to feeder pipelines. The magnitude and duration of road restrictions is dependent on spring weather conditions. Many battery operators also elect to perform maintenance work on production facilities during the spring months. Road restrictions and battery maintenance can also impact feeder pipeline receipts during the fall months although the impact on throughput is generally less pronounced than during the spring months.

The Pipelines have historically experienced reduced volumes during the spring months as a result of road restrictions and battery maintenance.

### ***Toll Design and Shipping Commitments***

The revenues earned for transporting crude oil on the Pipelines are determined by multiplying the volume transported by the applicable toll amounts. Tolls charged for transportation service on feeder pipelines in Alberta and Saskatchewan have not historically been regulated and are primarily determined through a market-based ratemaking methodology. This involves negotiation of transportation rates and terms of service with individual

producers and shippers. Factors relevant to these negotiations include forecast production volumes, required capital investment, the gathering toll structure in place for existing connected sites in an area and competitive alternatives for crude oil transportation in the region. See "Industry Regulation".

Feeder pipelines providing service within the conventional crude oil basin of western Canada do not usually obtain long term commitments or fixed revenue requirements from producers or shippers. In some cases, Koch Canada has obtained such commitments from producers in areas where there is material risk of volume loss to competing transportation systems. Production commitments, variable rate designs, and capital contributions from producers are also used to address the production risk associated with some pipeline connection projects.

Based on aggregate throughput for June 1997, approximately 21% of the volumes transported on the Pipelines were committed under contracts with remaining terms of one to five years.

### ***Products***

The Pipelines transport a broad spectrum of crude oil grades as well as condensate. The crude oil gathered by the Pipelines is available to the market as seven field streams. The following tables show the average annual throughputs on the Pipelines in 1996 by commodity and field stream.

**1996 Average Daily Throughput by Pipeline Stream**

| <u>Pipeline System</u> | <u>Commodity</u>      | <u>Field Stream</u> | <u>1996<br/>Average Daily<br/>Throughput<br/>(mbbls/d)</u> | <u>Percentage of Annual<br/>System Throughput</u> |
|------------------------|-----------------------|---------------------|--|---|
| Bow River .....        | Heavy Blend Crude Oil | Bow River "A"       | 166.0  | 54.8%   |
|                        | Light Sour Crude Oil  | Hamilton Lake       | 31.8   | 10.5  |
| Koch Alberta .....     | Light Sour Crude Oil  | Koch Alberta        | 62.6   | 20.7  |
|                        | Light Sweet Crude Oil | Clive Sweet         | 4.1  | 1.3   |
| Mid-Saskatchewan ..... | Heavy Blend Crude Oil | Smiley Heavy        | 18.8   | 6.2   |
|                        | Light Sweet Crude Oil | Smiley Sweet        | 13.3   | 4.4   |
| Koch Valley .....      | Condensate            | Condensate          | <u>6.4</u>   | <u>2.1</u>  |
| Total .....            |                       |                     | <u>303.0</u>   | <u>100.0%</u>                                     |

**1996 Average Daily Throughput by Commodity**

| <u>Commodity</u>            | <u>1996<br/>Throughput<br/>(mbbls/d)</u> | <u>Percentage of Annual<br/>System Throughput</u> |
|-----------------------------|--|---|
| Heavy Blend Crude Oil ..... | 184.8                                    | 61.0%   |
| Light Sour Crude Oil .....  | 94.4                                     | 31.2  |
| Light Sweet Crude Oil ..... | 17.4                                     | 5.7   |
| Condensate .....            | <u>6.4</u>                               | <u>2.1</u>  |
| Total .....                 | <u>303.0</u>                             | <u>100.0%</u>                                     |

### ***Transportation of Products***

Separate product streams are delivered on three of the Pipelines. Delivery of separate product streams can be effected in two ways on a feeder pipeline system. In some instances the feeder pipeline system may have more than one main pipeline which will allow for segregated product streams to be delivered through the system at the same time. Product streams can also be segregated by batching different stream injections through a single pipeline. Each product stream is then delivered into separate tanks at the pipeline outlet to maintain segregated quality.

The Bow River, Koch Alberta and Mid-Saskatchewan Pipeline Systems each have the capability to transport two segregated product streams, at the same time, through separate pipelines within each system. The Bow River and Mid-Saskatchewan Pipeline Systems have, from time to time, also used a batch mode of operation to optimize the use of available capacity and maximize system throughput. All of the Pipelines can be configured to create a

multi-product batching capability which, subject to certain limitations, allows the flexibility to handle changing production rates of existing product streams, and the ability to transport new product streams without construction of new pipeline.

### **Total System Throughput**

Average daily throughput of crude oil and condensate on the Pipelines for the periods indicated is set forth in the following table.

|  | Eight Months<br>ended<br>August 31, <sup>(1)</sup> |              | Year ended December 31, |              |              |              |              |
|--|--|--------------|-------------------------|--------------|--------------|--------------|--------------|
|  | 1997 <sup>(2)</sup>                                | 1996         | 1996                    | 1995         | 1994         | 1993         | 1992         |
|  | (thousands of barrels per day)                     |              |                         |              |              |              |              |
| Average daily throughput               |  |              |                         |              |              |              |              |
| Bow River Pipeline System .....        | 189.9  | 197.8        | 197.8                   | 191.6        | 169.6        | 153.9        | 148.1        |
| Koch Alberta Pipeline System .....     | 63.2   | 64.7         | 66.7                    | 66.0         | 61.3         | 57.7         | 54.9         |
| Mid-Saskatchewan Pipeline System ..... | 40.8   | 29.2         | 32.1                    | 27.3         | 23.4         | 22.4         | 17.6         |
| Koch Valley Pipeline System .....      | 7.0  | 5.9          | 6.4                     | 6.1          | 6.7          | 6.7          | 7.6          |
| Total .....                            | <u>300.9</u>                                       | <u>297.6</u> | <u>303.0</u>            | <u>291.0</u> | <u>261.0</u> | <u>240.7</u> | <u>228.2</u> |

#### **Notes:**

- (1) Throughput on the Pipelines is generally lower during the period from mid-March through early June due to seasonal factors such as road restrictions and battery maintenance which reduce crude oil receipts.
- (2) In addition to usual seasonal factors, throughput on the Pipelines was also reduced during March and April of 1997 as a result of operational disruptions on the IPL Pipeline.

Average daily throughput on the Pipelines has increased at a compound annual growth rate of 7.3% during the period from 1992 through 1996. Average daily throughput was 314,300 bbls for the month of August, 1997.

### **Reserves**

Throughput on the Pipelines is dependent on the crude oil reserves in the areas they service. The Pipelines have benefitted from continuing crude oil exploration and development activity, and technological improvements leading to increased recovery rates which have historically offset natural declines in crude oil production in the areas serviced by the Pipelines. In 1988, Alberta government studies estimated that there were approximately 430 mmbbls of remaining recoverable crude oil reserves in the areas serviced by the Bow River and Koch Alberta Pipeline Systems. Saskatchewan government studies estimated that there were approximately 97 mmbbls of remaining recoverable crude oil reserves in the areas serviced by the Mid-Saskatchewan Pipeline System. Since 1988, approximately 800 mmbbls of crude oil have been produced from the areas serviced by the Bow River and Koch Alberta Pipeline Systems and approximately 63 mmbbls of crude oil have been produced from the areas serviced by the Mid-Saskatchewan Pipeline System. Remaining estimated recoverable crude oil reserves, however, have increased to approximately 540 mmbbls in the areas serviced by the Bow River and Koch Alberta Pipeline Systems (1996 government estimates), and have remained relatively unchanged at approximately 96 mmbbls in the areas serviced by the Mid-Saskatchewan Pipeline System (1995 government estimate). While reserve additions and increased recovery rates have historically tended to offset natural declines in crude oil production in the areas served by the Pipelines, there can be no assurance that such developments will continue in the future. See "Risk Factors".

### **Bow River Pipeline System**

#### **Description**

The Bow River Pipeline System is a 1,525-mile major crude oil feeder pipeline and gathering system. The system has a total throughput capacity of approximately 239,600 bbls/d, and transported approximately 197,800 bbls/d of heavy blend and light sour crude oil in 1996. The system, the largest of the Pipelines, gathers and transports crude oil from established producing fields in southeastern Alberta, north to the Gibson terminal at Hardisty, Alberta, from which the crude oil may be delivered to either the IPL Pipeline or the Express Pipeline. Crude oil is also delivered south to the Murphy-owned pipeline at Milk River, Alberta which has connections to pipelines delivering to refineries at Billings, Montana. The Bow River Pipeline System consists of: (i) a pipeline

network with a throughput capacity of 96,200 bbls/d which gathers and transports crude oil by way of eight-inch, 10-inch, 12-inch and 16-inch diameter mainlines from both Tilley and Hays, Alberta to the Murphy pipeline connection at Milk River, Alberta which connects to pipelines delivering to refineries in Billings, Montana; (ii) a pipeline network with a throughput capacity of 102,500 bbls/d which gathers and transports heavy blend crude oil by way of eight-inch, 10-inch and 12-inch diameter mainlines from both Hays and Tilley, Alberta to Hardisty for delivery to either the IPL Pipeline or the Express Pipeline; and (iii) a pipeline network with a throughput capacity of 40,900 bbls/d which gathers and transports light sour crude oil by way of a 10-inch diameter mainline from Throne, Alberta to Hardisty, Alberta for delivery to the IPL Pipeline. The system also includes over 20 lateral pipelines totalling over 825 miles of two-inch to eight-inch diameter gathering lines connecting to the Bow River mainlines.

There are 12 Koch Canada and third party owned crude oil truck terminals located on the system. The 10 crude oil truck terminals owned by Koch Canada are included in the Pipeline Assets to be acquired by the Partnership. There are also 10 major pump stations associated with the Bow River mainline, including 29 active storage tanks providing storage capacity of approximately 532,900 bbls for heavy blend crude oil, 61,500 bbls for light sour crude oil and 65,750 bbls for condensate. All of the pump stations and associated storage capacity are included in the Pipeline Assets to be acquired by the Partnership. Terminalling services, including additional storage tanks, are provided by Murphy at Milk River, Alberta and by Gibson at Hardisty, Alberta.

# BOW RIVER PIPELINE SYSTEM

**LEGEND:**

- TERMINAL
- BOW RIVER PIPELINE SYSTEM
- - - KOCH ALBERTA PIPELINE SYSTEM
- THIRD PARTY PIPELINE SYSTEMS

## History

The Bow River Pipeline System was initially constructed by Koch and a partner in 1964 and 1965 as a single six-inch, eight-inch, 10-inch and 12-inch mainline from producing fields south of Taber, Alberta to Hardisty, Alberta. Crude oil was also gathered to the mainline in the Brooks, Alberta area and by Gibson in the Coronation, Alberta area. The volumes initially available in the service area of the system were less than 10,000 bbls/d. Koch purchased the remaining 50% interest in the Bow River Pipeline System in 1973, when annual volumes were approximately 40,000 bbls/d.

Over the years, the Bow River Pipeline System has been expanded as producers have developed additional crude oil reserves in the areas serviced by the system. Initially, system expansions were to the north, including: a second parallel (loop) pipeline between Throne and Hardisty, and a second parallel pipeline between Tilley and Throne in the early 1970s; and a second line between Hays and Tilley, and most of a third line between Tilley and Throne during the 1980s; and a third line between Throne and Hardisty between 1988 and 1991. In 1985, the first southbound delivery capability was added, with a capacity of about 12,000 bbls/d. In 1992, when total system receipts were approximately 148,100 bbls/d, the southbound capacity was significantly expanded to almost 40,000 bbls/d to meet growing refinery demands. In 1994, the southbound system was expanded to 57,200 bbls/d, and in 1995, a further expansion to 96,200 bbls/d was completed.

Increasing refinery demand for heavy crude oil at Billings, Montana in recent years has provided a market for the increasing crude oil production in the southern area of the Bow River Pipeline System, and as a result, there was no need to expand the northbound capacity of the system. The General Partner does not expect that the Billings, Montana market will generate additional demand for the Bow River heavy blend crude oil over the medium term, and therefore, anticipated production increases in the area served by the system will require the first northbound expansion of the heavy blend stream since 1991. The construction of approximately 34 miles of 10-inch pipeline in three segments between Princess station and Throne station, the addition of pumping capacity at all existing stations from Princess through Throne, and the addition of a new boost station between Throne and Hardisty are scheduled to start in November, 1997.

## Producers and Shippers

The Bow River Pipeline System served approximately 93 producers and 36 shippers in August, 1997. Production volumes from facilities operated by AEC, Crestar, Norcen, PanCanadian and Renaissance together accounted for over 50% of the throughput volumes on the Bow River Pipeline System in August, 1997. Crestar, Koch Canada, PanCanadian and Renaissance were the shippers who together accounted for almost 50% of the throughput volumes on the Bow River Pipeline System in August, 1997.

## Throughput

The Bow River Pipeline System accounted for approximately 65% of the total volumes transported on the Pipelines in 1996. Average daily throughput of heavy blend and light sour crude oil on the Bow River Pipeline System for the periods indicated is set forth in the following table.

|                             | Eight Months<br>ended<br>August 31, |              | Year ended December 31, |              |              |              |              |
|-----------------------------|-------------------------------------|--------------|-------------------------|--------------|--------------|--------------|--------------|
|                             | 1997                                | 1996         | 1996                    | 1995         | 1994         | 1993         | 1992         |
|                             | (thousands of barrels per day)      |              |                         |              |              |              |              |
| Average daily throughput    |                                     |              |                         |              |              |              |              |
| Heavy Blend Crude Oil ..... | 162.3                               | 165.5        | 166.0                   | 157.4        | 132.1        | 118.7        | 111.8        |
| Light Sour Crude Oil .....  | 27.6                                | 32.3         | 31.8                    | 34.2         | 37.5         | 35.2         | 36.3         |
| Total .....                 | <u>189.9</u>                        | <u>197.8</u> | <u>197.8</u>            | <u>191.6</u> | <u>169.6</u> | <u>153.9</u> | <u>148.1</u> |

Average daily throughput on the Bow River Pipeline System has increased from 148,100 bbls/d in 1992 to 197,800 bbls/d in 1996, a compound annual growth rate of 7.5%. Average daily throughput on the system for the month of August, 1997 was 201,800 bbls/d.

### ***Fields Served***

The following are the largest crude oil producing fields serviced by the Bow River Pipeline System:

|               |               |                 |
|---------------|---------------|-----------------|
| Alderson      | Hays          | Ronalane        |
| Atlee-Buffalo | Horsefly Lake | Suffield        |
| Bantry        | Jenner        | Taber           |
| Cessford      | Little Bow    | Taber North     |
| Countess      | Medicine Hat  | Taber South     |
| Enchant       | Provost       | Turin           |
| Grand Forks   | Retlaw        | Viking-Kinsella |

### ***Expansion and Growth Opportunities***

Expansion projects are currently underway which are anticipated to add approximately 20,600 bbls/d of throughput to the Bow River Pipeline System at an aggregate estimated cost of approximately \$18.2 million. These projects are expected to be completed by the end of the first quarter of 1998. In addition to the expansion of the northbound portion of the mainline system, which is expected to increase the total northbound capacity from 143,400 mbbls/d to 159,800 mbbls/d by the end of the first quarter of 1998 (See “— History”), the projects include seven new battery connections and consolidation of three existing connections into one larger battery.

There continue to be a significant number of new wells drilled in the area traditionally served by the Bow River Pipeline System. Drilling activity in the area has increased from 624 wells in 1992, to 929 wells in 1996.

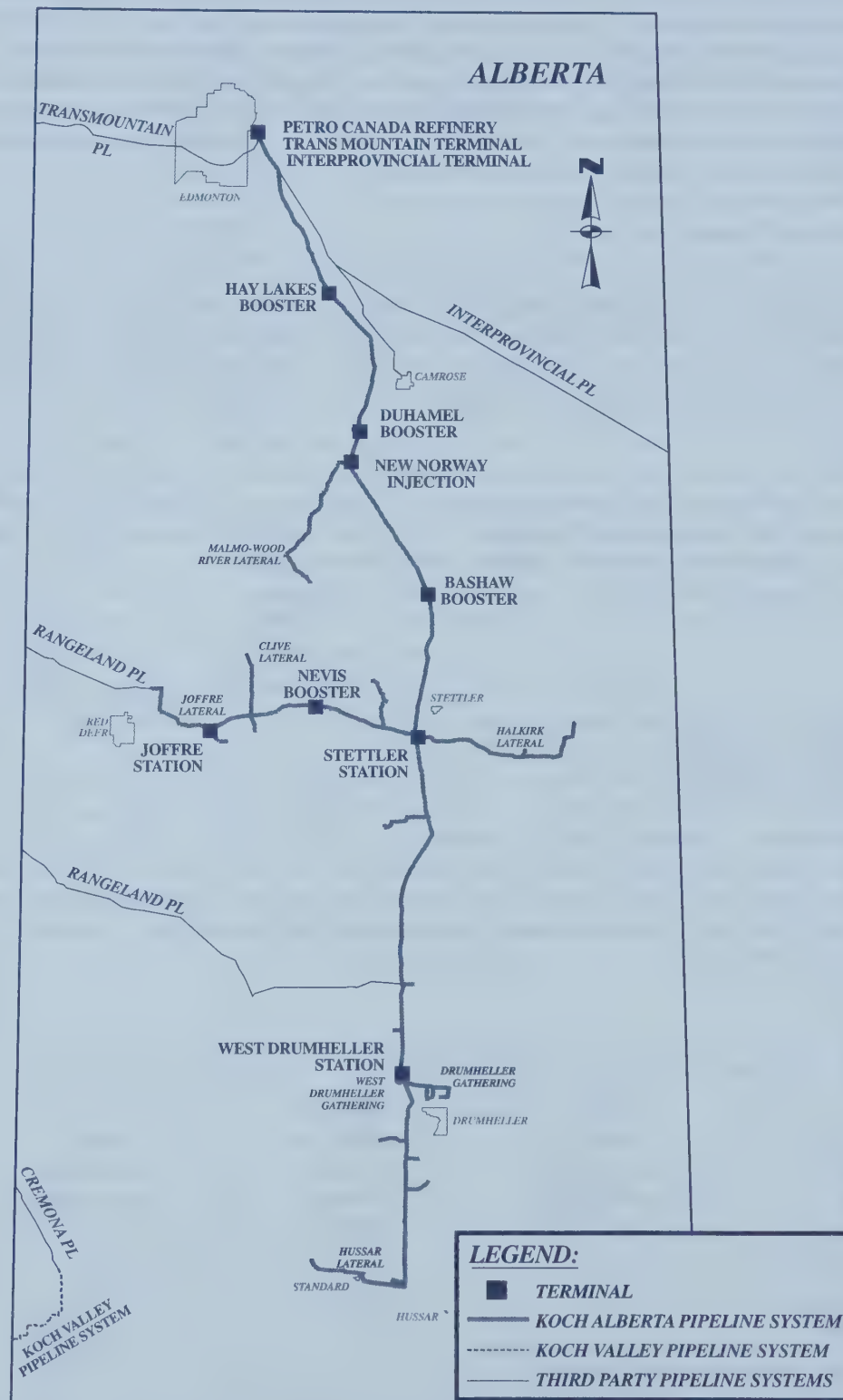
### **Koch Alberta Pipeline System**

#### ***Description***

The Koch Alberta Pipeline System is a 390-mile major crude oil feeder pipeline and gathering system. The system has a throughput capacity of approximately 73,900 bbls/d, and transported approximately 66,700 bbls/d of light crude oil in 1996. The system gathers and transports crude oil from established producing areas in south central Alberta north to refineries at Edmonton, Alberta and to the IPL and Trans Mountain Pipelines at Edmonton. The Koch Alberta Pipeline System consists of: (i) a six-inch, eight-inch, 10-inch and 12-inch diameter mainline between Hussar, Alberta, (east of Calgary) to Edmonton; and (ii) six laterals of gathering line. The Joffre lateral delivered approximately 4,100 bbls/d of light sweet crude oil west to the Amoco Rangeland Pipeline from Ulster's Clive Battery in 1996.

Major facilities on the system which will be acquired by the Partnership include the Drumheller boost station at the upstream end of the 52-mile long Drumheller to Stettler, Alberta 10-inch diameter mainline segment, and the Stettler pump station and Duhamel boost station on the 100-mile long 12-inch Stettler to Edmonton, Alberta mainline. There are also two deactivated mainline boost stations on the 12-inch mainline which, if activated, would increase the capacity of the Stettler to Edmonton segment from 73,900 bbls/d to in excess of 102,000 bbls/d. The deactivated Bashaw boost station is substantially complete but the deactivated Hay Lakes boost station would require reinstallation of two of the three pumps and all three motors. In total, there are currently three active storage tanks on the Koch Alberta Pipeline System which provide 120,000 bbls of storage capacity for light sour crude oil. Of this storage capacity, 110,000 bbls is located at the Stettler pump station. There are four truck terminals associated with the system, two of which are owned and operated by Koch Canada and are included in the Pipeline Assets to be acquired by the Partnership. The Petro-Canada refinery and the IPL and Trans Mountain Pipelines provide storage tanks for receipt of the Koch Alberta crude oil stream at Edmonton.

# KOCH ALBERTA PIPELINE SYSTEM



## History

The majority of the Koch Alberta Pipeline System was originally constructed in the early 1950s to serve oilfields between Drumheller and Stettler, Alberta, and was expanded over the years to meet the needs of producers as additional crude oil reserves were discovered in the area. The system was acquired by Koch in 1991. In the five year period immediately preceding Koch's acquisition of the system, throughput had declined from approximately 73,000 bbls/d in 1986 to approximately 48,000 bbls/d in 1990. Throughput has since increased from 52,600 bbls/d in 1991 to 66,700 bbls/d in 1996. Recent expansions include the construction of a new 55,000 bbl crude oil storage tank (equipped with a floating roof) at Stettler in 1993 to replace four existing 10,000 bbl tanks, the connection in July, 1995 of a 7,700 bbls/d battery in the Redlands area southwest of Drumheller, and the associated expansion of the Drumheller boost station.

## Producers and Shippers

The Koch Alberta Pipeline System served approximately 54 producers and 36 shippers in August, 1997. Production volumes from facilities operated by Canadian Natural, PanCanadian, Renaissance and Ulster together accounted for over 55% of the throughput volumes on the Koch Alberta Pipeline System in August, 1997. Gibson, Koch Canada, Northridge and PanCanadian were the shippers who together accounted for over 50% of the throughput volumes on the Koch Alberta Pipeline System in August, 1997.

## Throughput

The Koch Alberta Pipeline System accounted for approximately 22% of the total volumes transported on the Pipelines in 1996. Average daily throughput of light sweet and light sour crude oil on the Koch Alberta Pipeline System for the periods indicated is set forth in the following table.

|                             | Eight Months<br>ended<br>August 31, |             | Year ended December 31, |             |             |             |             |
|-----------------------------|-------------------------------------|-------------|-------------------------|-------------|-------------|-------------|-------------|
|                             | 1997                                | 1996        | 1996                    | 1995        | 1994        | 1993        | 1992        |
|                             | (thousands of barrels per day)      |             |                         |             |             |             |             |
| Average daily throughput    |                                     |             |                         |             |             |             |             |
| Light Sour Crude Oil.....   | 59.6                                | 61.4        | 62.6                    | 64.2        | 58.6        | 53.3        | 53.2        |
| Light Sweet Crude Oil ..... | 3.6                                 | 3.3         | 4.1                     | 1.8         | 2.7         | 4.4         | 1.7         |
| Total.....                  | <u>63.2</u>                         | <u>64.7</u> | <u>66.7</u>             | <u>66.0</u> | <u>61.3</u> | <u>57.7</u> | <u>54.9</u> |

Average daily throughput on the Koch Alberta Pipeline System has increased from 54,900 bbls/d in 1992 to 66,700 bbls/d in 1996, a compound annual growth rate of 5.0%. Average daily throughput on the system in August, 1997, was 61,600 bbls/d.

## Fields Served

The following are the largest crude oil producing fields serviced by the Koch Alberta Pipeline System:

|            |                 |              |            |                 |
|------------|-----------------|--------------|------------|-----------------|
| Bashaw     | Duhamel         | Halkirk      | Mikwan     | Swalwell        |
| Bassano    | Erskine         | Halkirk East | Nevis      | Twining         |
| Cessford   | Ewing Lake      | Haynes       | Queenstown | Watts           |
| Chain      | Fenn-Big Valley | Hussar       | Rockyford  | Wayne-Rosedale  |
| Chigwell   | Fenn West       | Jumpbush     | Rowley     | West Drumheller |
| Clavesholm | Ghost Pine      | Long Coulee  | Shouldice  | Wintering Hills |
| Clive      | Gladys          | Michichi     | Stettler   | Wood River      |
| Drumheller |                 |              |            |                 |

## Expansion and Growth Opportunities

Minor expansion projects on the system are currently being evaluated. In 1996, 146 new wells were drilled in the area traditionally served by the Koch Alberta Pipeline System.

## **Mid-Saskatchewan Pipeline System**

### ***Description***

The Mid-Saskatchewan Pipeline System is a 334-mile major crude oil feeder pipeline and gathering system. The system has a total throughput capacity of approximately 63,200 bbls/d, and transported approximately 32,100 bbls/d of crude oil in 1996. The system gathers crude oil from several major established oil field areas near Kindersley and Kerrobert, Saskatchewan and transports it to the IPL Pipeline at Kerrobert. The Mid-Saskatchewan Pipeline System consists of: (i) a gathering network with a throughput capacity of 38,700 bbls/d, which gathers heavy blend crude oil from areas west of Coleville, Saskatchewan (including the recently discovered Marengo and Mantario pools operated by Crestar) for delivery to the Kerrobert Terminal, and injection into the IPL Pipeline; and (ii) a pipeline gathering network from the east and southeast of Coleville, Saskatchewan with a throughput capacity of 24,500 bbls/d, which gathers light sweet crude oil for delivery to the Kerrobert Terminal, and injection into the IPL Pipeline. The light sweet crude oil is gathered at a small pump station near Dodsland, Saskatchewan, with an 11,000 bbls storage tank, and pumped to Kerrobert, where 104,000 bbls of storage space is available.

The heavy blend crude oil portion of the system includes a boost station near Smiley, Saskatchewan, a diluent blending station at Coleville, Saskatchewan, and terminalling storage at Kerrobert, all of which are included in the Pipeline Assets to be acquired by the Partnership. The heavy crude oil typically produced in these areas is too viscous to transport in pipelines without the use of condensate, a diluent which reduces the viscosity of the heavy crude oil. The Mid-Saskatchewan Pipeline System includes three condensate storage tanks located at Kerrobert (24,000 bbls storage capacity), Coleville (7,800 bbls storage capacity) and in the Hoosier area at the far western end of the heavy blend gathering system (6,000 bbls storage capacity), all of which are included in the Pipeline Assets to be acquired by the Partnership. Condensate is obtained at Kerrobert from the IPL Pipeline via terminalling facilities owned and operated by Murphy and Manito Pipelines. The condensate is delivered from Kerrobert to Coleville via a four-inch pipeline, and to the Hoosier area by truck, either from the storage at Coleville, or from local condensate production plants. The condensate distribution system consists of a separate four-inch pipeline paralleling the crude oil gathering system from Kerrobert through the Coleville and Smiley stations, and also to the three gathering points on the Marengo gathering system.

Both the light sweet and heavy blend crude oil streams are received by the IPL Pipeline on a batch basis with a typical interval between batches of two days. To facilitate reliable gathering operations, the Mid-Saskatchewan Pipeline System has provided over four production days of crude oil storage for each stream at Kerrobert (approximately 160,000 bbls of storage capacity for heavy blend crude oil, and 104,000 bbls of storage capacity for light sweet crude oil). In the aggregate, the system includes 12 active tanks providing total storage capacity of 330,400 bbls, all of which are included in the Pipeline Assets to be acquired by the Partnership. There are currently two truck terminals located on the system, one each for the light and heavy streams, both of which are owned and operated by Koch Canada and are included in the Pipeline Assets to be acquired by the Partnership.

# MID-SASKATCHEWAN PIPELINE SYSTEM



## History

The Mid-Saskatchewan Pipeline System was originally constructed in the early 1950s to serve oilfields in the Coleville and Smiley areas of west-central Saskatchewan, and was acquired by Koch in 1973. Significant expansions of the system since 1973 include the construction of the Hoosier gathering system in 1974, the acquisition of the Plato gathering pipeline in 1986, the construction of a new pump station at Dodsland, and a new eight-inch pipeline from Dodsland to Kerrobert in 1984. In 1995, the Mid-Saskatchewan Pipeline System was selected to transport production from the newly discovered Marengo and Mantario heavy oil fields, which included the construction of a new gathering system to this area and the expansion of the existing transmission system from Smiley through Coleville to Kerrobert.

## Producers and Shippers

The Mid-Saskatchewan Pipeline System served approximately 42 producers and 19 shippers in August, 1997. Production volumes from facilities operated by Amoco, Crestar and Philips Petroleum together accounted for over 50% of the throughput volumes on the Mid-Saskatchewan Pipeline System in August, 1997. Amoco, Gulf Canada, Koch Canada, Mobil and Wascana (a subsidiary of Canadian Occidental), together accounted for over 70% of the shipper throughput volumes on the Mid-Saskatchewan Pipeline System in August, 1997. All production from the area surrounding the relatively new Marengo production, which is operated by Wascana and Crestar, is contracted to be transported on the Mid-Saskatchewan Pipeline System for a period of five years commencing in April, 1996. These agreements were entered into to mitigate the risk associated with construction of the lateral to a new producing area.

## Throughput

The Mid-Saskatchewan Pipeline System accounted for approximately 11% of the total volumes transported on the Pipelines in 1996. Average daily throughput of heavy blend crude oil and light sweet crude oil on the Mid-Saskatchewan Pipeline System for the periods indicated is set forth in the following table.

|                             | Eight Months<br>ended August 31, |      | Year ended December 31, |      |      |      |      |
|-----------------------------|----------------------------------|------|-------------------------|------|------|------|------|
|                             | 1997                             | 1996 | 1996                    | 1995 | 1994 | 1993 | 1992 |
|                             | (thousands of barrels per day)   |      |                         |      |      |      |      |
| Average daily throughput    |                                  |      |                         |      |      |      |      |
| Heavy Blend Crude Oil ..... | 27.6                             | 16.2 | 18.8                    | 13.4 | 9.8  | 8.3  | 5.3  |
| Light Sweet Crude Oil ..... | 13.2                             | 13.0 | 13.3                    | 13.9 | 13.6 | 14.1 | 12.3 |
| Total .....                 | 40.8                             | 29.2 | 32.1                    | 27.3 | 23.4 | 22.4 | 17.6 |

Average daily throughput on the Mid-Saskatchewan Pipeline System has increased from 17,600 bbls/d in 1992 to 32,100 bbls/d in 1996, a compound annual growth rate of 16.2%. Average daily throughput on the system for the month of August, 1997 was 43,000 bbls/d, an increase of 20.8% over the month of August, 1996.

## Fields Served

The following are the largest crude oil producing fields serviced by the Mid-Saskatchewan Pipeline System:

|                 |             |                |              |
|-----------------|-------------|----------------|--------------|
| Alsask          | Dodsland    | Kerrobert      | Onward       |
| Avon Hill       | Druid       | Loverna        | Plato        |
| Buffalo Coulee  | Ermine      | Lucky Hills    | Plato North  |
| Coleville       | Eureka      | Mantario North | Plenty       |
| Coleville South | Forgan      | Marengo South  | Prairiedale  |
| Court           | Forgan West | Milton         | Smiley-Dewar |
| Court South     | Fusilier    | North Hoosier  | Verendrye    |
|                 | Hoosier     | North Smiley   | Whiteside    |

## Expansion and Growth Opportunities

Several projects are currently planned for completion in the first half of 1998 including shipping capacity expansions in the Marengo area, expansion of the Smiley boost station and the construction of an additional 80,000

barrel storage tank at the Kerrobert terminal. These projects have an estimated aggregate cost of approximately \$2.5 million and are anticipated to add approximately 5,700 bbls/d of throughput to the Mid-Saskatchewan Pipeline System by the end of the first quarter of 1998.

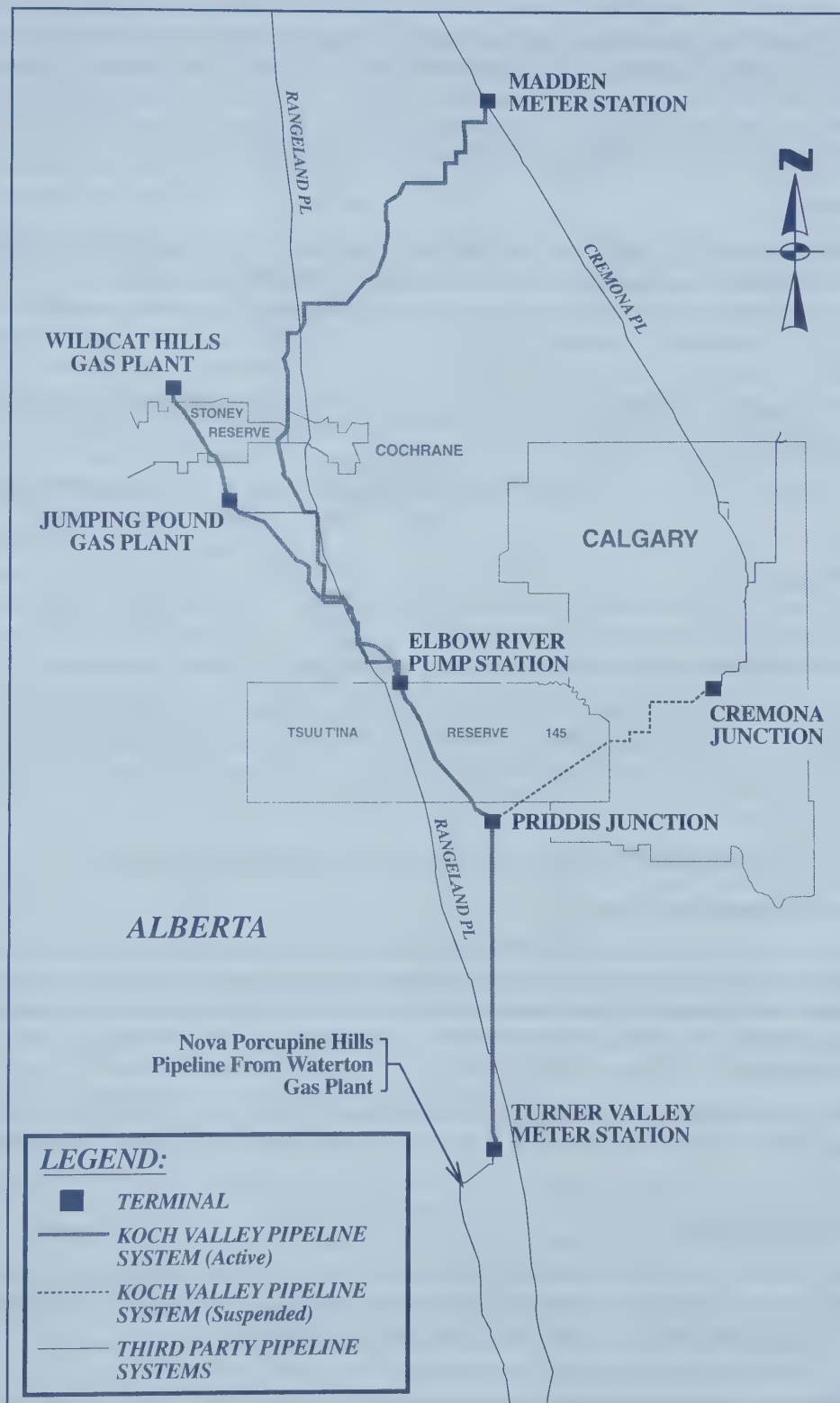
Drilling activity in the areas serviced by the Mid-Saskatchewan Pipeline System has increased from 144 wells drilled in 1992, to 327 wells drilled in 1996. Recent heavy oil exploration successes have increased drilling activity in these areas, and it is anticipated that the increased levels of activity will continue throughout 1998.

### **Koch Valley Pipeline System**

#### ***Description***

The Koch Valley Pipeline System is a 151-mile condensate feeder pipeline system between Turner Valley and Madden in southwestern Alberta. The system has a throughput capacity of approximately 12,100 bbls/d and transported approximately 6,400 bbls/d of condensate in 1996. The Koch Valley Pipeline System consists of a six-inch diameter pipeline, paralleled by a suspended four-inch pipeline, from Turner Valley to the Priddis Junction and a four-inch diameter pipeline from the Priddis Junction to the Elbow River boost station. A second four-inch gathering line from the Petro-Canada Wildcat Hills and Shell Jumping Pound gas plants also delivers into the Elbow River boost station. From the Elbow River boost station, which repumps all the product transported on the system, a six-inch pipeline connects to the Federated Cremona Pipeline at Madden, Alberta. The system receives condensate from the Nova Porcupine Hills Pipeline at Turner Valley (the condensate originates at the Shell Waterton gas plant) and from the Shell Jumping Pound and Petro-Canada Wildcat Hills gas plants to the west of Calgary for delivery into the Federated Cremona Pipeline. There are no storage tanks or truck terminals associated with this system.

# KOCH VALLEY PIPELINE SYSTEM



## History

The two segments of pipeline between Turner Valley and the Priddis Junction were constructed during the 1930s and 1940s as part of the crude oil delivery system from the original Turner Valley oilfields to refineries in Calgary (which refineries have since been removed). In 1987, these lines were hydrostatically tested to verify their integrity, and the six-inch line has subsequently been used to transport condensate. The four-inch lines between the Priddis Junction and the two gas plants west of Calgary were built in the late 1960s, and have been used to transport condensate from these plants. Koch acquired the system in 1992. The six-inch line between the Elbow River boost station and Madden was built by Koch in 1993 to reroute the flow of condensate around the west side of the City of Calgary. The line between Priddis and Calgary is suspended and no longer in use.

## Producers and Shippers

The Koch Valley Pipeline System served two producers, Shell and Petro-Canada, who produced 99% and 1%, respectively, of the volumes transported on the system in August, 1997. The two shippers on the system are Shell and PanCanadian, who shipped 95% and 5%, respectively, of the volumes shipped on the system in August, 1997.

## Throughput

Average daily throughput of condensate on the Koch Valley Pipeline System for the periods indicated is set forth in the following table:

|                                | Eight Months<br>ended August 31, |            | Year ended December 31, |            |            |            |            |
|--------------------------------|----------------------------------|------------|-------------------------|------------|------------|------------|------------|
|                                | 1997                             | 1996       | 1996                    | 1995       | 1994       | 1993       | 1992       |
| (thousands of barrels per day) |                                  |            |                         |            |            |            |            |
| Average daily throughput       |                                  |            |                         |            |            |            |            |
| Condensate .....               | <u>7.0</u>                       | <u>5.9</u> | <u>6.4</u>              | <u>6.1</u> | <u>6.7</u> | <u>6.7</u> | <u>7.6</u> |

Average daily throughput on the system for the month of August, 1997 was 7,900 bbls/d.

Alternatives are being considered for increasing volumes on the system, including the possible conversion of the system to transportation of natural gas liquids. A number of exploration and development projects are currently underway in the southern Alberta foothills area including those in the Moose Mountain, Waterton and Racehorse Creek areas.

## OTHER MATTERS RELATING TO THE PIPELINE ASSETS

### Pipeline Rights-of-Way and Land Tenure

The real property interests related to the Pipeline Assets fall into two basic categories of ownership: (i) a number of parcels associated with the Pipeline Assets, including many pump stations and storage facilities which are owned in fee simple; and (ii) the majority of parcels which are covered by leases, easements, rights-of-way, permits or licences from landowners or governmental authorities permitting the use of such land for the construction and operation of such facilities.

Koch Canada, upon closing of the Asset Purchase Agreement, will transfer its interest in the real property associated with the Pipeline Assets free and clear of any liens or encumbrances created by, through or under Koch Canada.

### Shipper and Producer Relations

Koch Canada believes that it enjoys amicable relationships with its shipper and producer customers utilizing the Pipelines, and there are currently no material disputes between Koch Canada and its shippers or producers regarding its various shipping and other agreements relating to the Pipelines.

### Labour Relations

All of Koch Canada's personnel involved in the operation of the Pipeline Assets are non-unionized. Koch Canada believes that its relations with its employees involved in the operation of the Pipeline Assets are good.

## Capital Expansion Projects

The following expansion projects are currently approved or underway with an aggregate estimated cost of approximately \$20.7 million, and are anticipated to add a total of approximately 26,300 bbls/d of throughput to the Pipelines by the end of the first quarter of 1998:

(a) on the Bow River Pipeline System, an expansion of the northbound portion of the main line of the system, seven new battery connections and consolidation of three existing connections into one larger battery at an estimated cost of approximately \$18.2 million; and

(b) on the Mid-Saskatchewan Pipeline System, shipping capacity expansions in the Marengo area, expansion of the Smiley boost station and the construction of an additional 80,000 barrel storage tank at the Kerrobert terminal at an estimated cost of approximately \$2.5 million.

Koch will be responsible for the costs associated with the foregoing expansions. The Partnership will be responsible for the costs of any future expansions.

The General Partner is authorized under the Partnership Agreement to maintain, improve, expand, extend or change the Pipeline Assets, and is therefore able to implement Operational Enhancements (as defined herein). In the event that the General Partner determines to proceed with an Operational Enhancement, the General Partner will determine the manner of financing the Operational Enhancement, including one or a combination of the following: (i) usage of cash of the Partnership that would otherwise become Distributable Cash; (ii) borrowing by the Partnership upon such terms as the General Partner may determine, and assets of the Partnership may be pledged to secure such borrowing; and (iii) the issuance of additional Units by the Partnership.

## Costs of Abandonment

On abandonment of any of the Pipeline Assets, costs of abandonment are for the account of Koch Canada, which obligations will be assumed by the Partnership pursuant to the Asset Purchase Agreement. Future abandonment costs will be a function of a number of factors including regulatory requirements at the time of abandonment, the size of the pipeline to be abandoned and the pipeline's location. Abandonment requirements can vary considerably, ranging from simply emptying the pipeline and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Koch Canada's experience to date has been that the costs of abandonment have been limited primarily to removal of the crude oil from the lines and removal of any associated surface facilities.

It is expected that the Pipeline Assets will be abandoned over time. As production declines at battery facilities, producers can be expected to consolidate remaining production into fewer facilities to reduce operating costs. The pipeline segments no longer used as part of the Pipelines may nevertheless be useful to the producers in their consolidation efforts and are sometimes sold to the producers who, in most cases, assume any associated abandonment costs. Koch Canada has a program of identifying and disconnecting very low volume sites, and offering the disconnected lines to producers at a relatively nominal price.

**The General Partner has the discretion and may in the future determine to establish cash reserves to fund the cost of abandonment of the Pipeline Assets. The establishment and funding of such reserves will reduce Distributable Cash, and the timing of additions to, and distributions from such reserves may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See "The Partnership Agreement — Cash Reserves".**

## Pipeline Integrity and Environmental Matters

Crude oil pipelines have historically had the best safety record in the North American hydrocarbon transportation industry. As compared to natural gas pipelines, crude oil pipelines have a lower risk of incidents such as fire or explosion. The principal risks associated with crude oil pipelines are the property damage and cleanup expenses from unintended discharges.

All crude oil pipeline systems are required to meet construction, operating and maintenance standards established by the Canadian Standards Association and the provincial regulators responsible for pipelines: the Energy and Utilities Board ("EUB") in Alberta; and Saskatchewan Energy and Mines ("SEM") in Saskatchewan. Koch Canada strives to operate its Canadian pipeline systems in compliance with the standards and regulations established by these regulators and believes that the Pipelines are currently in material compliance with all material environmental laws and regulations.

Current pipeline regulations require that line pipe, valves and fittings meet specific requirements as defined by the Canadian Standards Association. The strength, thickness and integrity of the pipe wall, and the quality and integrity of the welds used in its fabrication determine the maximum available pressure rating of a steel pipeline. Bare steel pipe will corrode in soil, water and, to some extent, air. To avoid external corrosion, new below ground pipelines are coated with a material resistant to water, and above ground piping is painted. The Pipelines Assets may include a limited number of gathering segments of uncoated below ground pipeline. Cathodic protection systems are used on steel pipelines to impress a small voltage on the pipe to help protect it from external corrosion. Pipelines can also corrode internally. Various forms of bacteria found in oil are major causes of internal corrosion. To mitigate internal corrosion, cleaning pigs are sent through segments of the pipeline (typically every two weeks in mainline segments and monthly in gathering segments), and corrosion inhibitor chemicals are injected into the pipelines when necessary. In addition, crude oil streams are regularly sampled for bacteria starting at the downstream ends of the pipeline systems. If bacteria are found, the sampling is repeated further upstream until the source is located. Producers with excessive bacteria are required to treat their facilities with biocide to kill the bacteria. Biocide is also injected into the pipelines to control and kill bacterial contamination when necessary.

In 1996, a "smart pigging" inspection and repair program was initiated on the Pipelines, the remaining portion of which is scheduled to be completed over the next five years. A "smart pig" is used to detect anomalies in pipeline, which are then analyzed and repaired as necessary. As this program was initiated prior to the decision to sell the Pipeline Assets to the Partnership, Bow River Pipe Lines Ltd., an affiliate of the General Partner, will be responsible for the costs of the remaining portion of the program to a maximum of \$10.0 million. The Partnership will be responsible for any costs in excess of this amount.

The Pipelines participate in the various industry cooperatives which have been established regionally in Alberta and Saskatchewan to provide training in oil spill containment and recovery and also to provide the required equipment, manpower and contractor resources to deal with an oil spill, should one occur.

In accordance with regulatory requirements, the Pipelines are remotely monitored to promote safe and efficient operations, and to provide systems to detect and react to volume imbalances which may signal a pipeline leak. The facility has the ability to stop pumps and isolate pipeline segments, if necessary. Koch has systems to monitor higher volume pipeline segments, and is currently in the process of expanding and updating these systems to provide coverage of lower volume segments and to replace manual volume balance procedures. The expanded and updated systems are expected to provide a platform using current technology to provide more detailed control, greater data acquisition and sharing capabilities, and the capability to meet the anticipated future needs of its pipeline business.

The control system upgrading project will provide improved technology in computing hardware, communications systems, pipeline control software, and integration of pipeline operations information with management decision making systems. Among its benefits, the upgraded system is expected to improve pipeline scheduling, leak detection, simulation and optimization and business integration capabilities. The current implementation schedule is expected to result in commissioning of the new SCADA system on the Bow River Pipeline System during the first quarter of 1998, and on the remaining Pipelines during the balance of 1998. Although implementation of the new pipeline control system is being completed locally, the Pipelines will continue to be monitored and operating orders dispatched from the Wichita control centre.

The Pipelines currently communicate with the Wichita pipeline control centre using field radio links and leased telephone lines into Koch Canada's Calgary office. Data travels between the Calgary office and the Wichita control centre using leased voice and data communication links. A separate standby communications circuit, with automatic switchover on failure, is available for SCADA communications. As part of the control system upgrade, the communications system between many station sites and communication hubs on the Pipelines and Calgary will be converted to satellite communications technology which is expected to provide economic savings while maintaining reliability.

Additional pipeline monitoring includes at least bi-weekly aerial surveillance of the high volume mainline segments, and monthly aerial surveillance of the lower volume gathering segments. Additional periodic ground inspections of surface facilities, water course crossings and other critical or sensitive areas are made. Monthly data gathering and analysis of cathodic protection system data (a system provided to mitigate the external corrosion of the pipelines), is supplemented by an annual inspection of the cathodic protection system of each pipeline.

Environmental incidents on the Pipelines have been infrequent. Over the past five years, there have only been three environmental incidents on the Pipelines involving expenses in excess of \$50,000 per incident. In 1997, the Mid-Saskatchewan Pipeline System experienced a pipeline failure that resulted in the release of an estimated 9,000 bbls of crude oil. Since a loop pipeline was available and able to accommodate the entire flow, no significant shipping delays resulted. In 1995, the Bow River Pipeline System experienced a fire which destroyed the Chin Coulee boost station. The crude oil released was consumed in the fire; consequently there was no spill clean-up required. Southbound deliveries were significantly curtailed for several days until temporary pumping equipment was put in place. In 1994, the Bow River Pipeline System experienced a pump failure at the Pollockville boost station which resulted in an oil release of an estimated 7,500 bbls which was contained within the station site. The total costs of environmental incidents on the Pipeline Assets in the past five years were approximately \$2.63 million. All of the incidents resulted from failures of pumping equipment or pipeline and steps have been taken, or are underway, to reduce the risk of similar incidents and to reduce the volume released prior to detection and shutdown.

Because of the prevalence of small gathering lines in Koch's United States pipeline operations, Koch has experienced a greater number of incidents in the United States than in Canada. Most of these incidents involve little or no residual damage to the environment. Under the laws of the United States, any discharge of oil into navigable waters can result in the imposition of a fine of up to U.S. \$1,000 per barrel without regard to whether the leak was caused by negligence, a third party or an act of God. At the present time, Koch is a defendant in two lawsuits brought by the United States seeking penalties and other relief and alleging that approximately 69,000 barrels of oil were discharged in approximately 311 incidents in a six state area over the past seven years. Including volumes transported on the Pipelines, Koch currently transports approximately 1.3 million barrels per day of crude oil and refined products on its pipelines. Koch believes that its operations compare favorably with other companies and intends to vigorously defend these actions. The litigation involves Koch's United States pipelines, and the Partnership will not be liable for any costs or judgments associated with the litigation.

**The General Partner has the discretion and may in the future determine to establish cash reserves to fund the cost of environmental obligations and ongoing maintenance expenditures associated with the Pipeline Assets. The establishment and funding of such reserves will reduce Distributable Cash, and the timing of additions to, and distributions from such reserves may result in the realization of taxable income by Unitholders in a year prior to that in which funds resulting therefrom are distributed. See "The Partnership Agreement — Cash Reserves".**

### **Acquisitions**

There have been no material acquisitions by Koch Canada involving the Pipeline Assets within the last two years. Koch Canada presently has no plans for the acquisition of other pipeline assets in Canada or the disposition of any of the Pipeline Assets, other than the disposition of the Pipeline Assets to the Partnership pursuant to the Asset Purchase Agreement.

### **Insurance**

The General Partner will procure, at or prior to closing, insurance coverage to protect the interest of the Partnership of the types and in amounts the General Partner believes to be consistent with prudent practice in the pipeline industry. At a minimum, the General Partner will maintain: (i) property insurance, covering physical damage to the assets on a replacement costs basis; (ii) business interruption insurance, covering loss of earnings; and (iii) third party liability insurance, covering actions by third parties. The latter coverage will include contractual liability coverage, and sudden and accidental pollution coverage, which will specifically insure against claims for damage from sudden and accidental pipeline leaks or spills.

This insurance coverage is subject to limits and exclusions or limitations on coverage that the General Partner considers to be reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that insurance coverage will be adequate in any particular situation. Further, the pipeline industry is subject to environmental regulations pursuant to local, provincial and federal laws of Canada. A breach of such legislation may result in the imposition of fines or issuance of clean up orders which may not be insurable.

### **Competition**

Feeder pipelines are generally subject to competition from other pipeline systems and trucking alternatives. Pipelines compete on the basis of transportation rates and other terms of service. The cost structure and level of capital investment required to gather new volumes are important factors in determining rate competitiveness.

between pipelines. The requirement or absence of producer shipping commitments can also form the basis for a pipeline to differentiate its services from those of competitors.

Many factors can influence the pricing of crude oil, including the quality of oil delivered to the refining market. The crude quality delivered from a given feeder pipeline can differ significantly from the oil quality delivered from a competing pipeline in the area. Accordingly, a pipeline's competitiveness can also be influenced by the quality restrictions and specifications set for crude oil entering the system.

Collectively, these factors determine a pipeline company's ability to retain existing volume and attract new throughput to its system. The General Partner believes the Pipelines are well positioned to compete in their respective service regions.

## **INDUSTRY CONDITIONS**

The Partnership will be engaged in the transportation of crude oil and will therefore be dependent upon the continuing viability of the petroleum industry in western Canada. The following is a discussion of the current environment for the crude oil industry in western Canada.

Some of the information and statistics presented in the following sections are excerpted from the National Energy Board 1996 Annual Report and the National Energy Board Crude Oil Supply, Disposition and Price Report (January — December, 1996).

### **Canadian Crude Oil Supply**

The western Canadian sedimentary basin is the major source of conventional crude oil and bitumen in Canada. Domestic crude oil and natural gas production comes primarily from Alberta, with lesser amounts from British Columbia, Saskatchewan, Manitoba and the Northwest Territories. Western Canada's hydrocarbon resource base is large and diverse, comprised of conventional light crude oil, heavy crude oil, bitumen in the oil sands of Alberta, natural gas and natural gas liquids. Efficient, low cost, and safe transportation by pipeline from producing fields to refineries, processing plants and domestic and export markets is essential to the Canadian oil and gas industry.

Canada has significantly expanded its role in the North American energy market during the 1990s. Steady growth in Canadian crude oil production, the removal of export pipeline constraints, and successful penetration of U.S. refining markets allowed net crude oil export revenues to reach a record \$5.5 billion in 1996.

Total production of crude oil and equivalent grew to a record 2.0 million bbls/d in 1996, surpassing the previous record set in 1973. In its 1996 Annual Report, the National Energy Board notes that current production levels reflect substantial increases in heavy crude oil production and, contrary to earlier forecasts, that production rates of conventional light crude oil have decreased only marginally.

In 1996, Canada's production of conventional light and heavy crude oil grew to almost 1.4 million bbls/d. This represents a 2% increase in conventional production over 1995 output and a 14% increase above production levels in 1992. During the same periods, throughput on the Pipelines grew by 4% and 33%, respectively.

At year end 1995, the last year for which the National Energy Board has compiled data, reserves of conventional crude oil totalled approximately 4.2 billion bbls, a decrease of approximately 1% from 1991. New discoveries, extensions to existing pools, and revisions to reserve estimates have resulted in significant reserves additions to offset natural production declines. Technology advances including horizontal well applications and innovative pumping technologies have improved crude oil recovery factors within existing reservoirs. Since 1991, on a cumulative basis, additions to established reserves of conventional light and heavy crude oil have replaced 94% of production.

### **Demand for Canadian Crude Oil**

Refinery demand in Canada is supplied with both domestic production and imported crude oil. In 1996, crude oil imports totalled 682,000 bbls/d. Essentially all imported crude oil is processed at refineries located in Québec and the Atlantic provinces. In general, these refiners do not have economical access to Canadian crude oil supplies due to transportation costs and foreign crude oil price relationships.

Production from the western Canadian sedimentary basin satisfies crude oil demand at refineries in British Columbia, the Prairie provinces, Ontario, and the United States. During temporary supply/demand imbalances in the North American market, small volumes of western Canadian crude oil have been exported to the Far East.

In 1996, approximately 910,000 bbls/d of crude oil from the western Canadian sedimentary basin were delivered to refineries in British Columbia, the Prairie provinces, and Ontario. Because the available supply of western Canadian crude oil is surplus to domestic demand, significant production volume is exported to the United States. Total crude oil exports, including condensate and synthetic oil, have grown by 32% since 1992. In 1996, crude oil exports reached 1.1 million bbls/d.

The core export market regions for Canadian crude are Chicago (32%), Minneapolis/St. Paul (23%), Billings, Montana (11%) and the Puget Sound area of Washington State (9%). Approximately equal amounts of light crude oil and heavy blend crude oil were exported from Canada in 1996.

Demand for Canadian crude oil production is determined by the degree to which Canadian crude oil can compete on the basis of price, quality and availability in individual market areas in Canada and the northern United States.

### **Canadian Crude Oil Pipeline Industry**

During the 1990s, three major export pipeline projects have been completed to accommodate the growth in Canadian crude oil production. These projects have added over 450,000 bbls/d in new export capacity, representing capital investment in excess of \$1 billion.

The IPL Pipeline completed system expansions to the midwestern United States and central Canadian markets in 1994 (170,000 bbls/d) and 1996 (120,000 bbls/d). In 1996, the National Energy Board approved the addition of an incremental 120,000 bbls/d capacity on the IPL Pipeline from western Canada. This project, referred to as the "SEP II" program, is scheduled for completion during 1998. The IPL Pipeline is also conducting preliminary discussions with industry participants regarding a future expansion beyond the "SEP II" program.

The Express Pipeline began operation in April 1997 with an initial design capacity of 172,000 bbls/d. The Express Pipeline is the first major crude oil export pipeline to be constructed from western Canada in 45 years. The pipeline extends from Hardisty, Alberta to Casper, Wyoming, giving Canadian producers improved access to refineries in Utah, Colorado and Wyoming. Canadian crude oil can also be transferred to the Platte Pipeline system for delivery to the United States' midwest. Completion of the Express Pipeline and the IPL Pipeline expansion initiatives should ensure long-term export pipeline capacity for the growing Canadian crude oil supply.

The 1990s have also brought a departure from the traditional cost-of-service approach to setting tolls on major export pipelines. Several pipeline companies, including the IPL Pipeline and Trans Mountain Pipeline, have reached negotiated toll settlements with their shippers. These agreements provide the major export pipelines with performance-based incentives for capturing cost-efficiencies and maximizing throughput.

The Express Pipeline introduced an alternative toll design where shippers were offered a tiered rate structure linked to term shipping commitments. Incentive-based and negotiated toll agreements are indicative of the trend toward market-based toll designs in the pipeline industry. These approaches promote cost efficiency, align incentives with producers through risk sharing, and reduce regulatory burden.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis should be read in conjunction with the combined financial statements of Pipeline Assets included elsewhere in this prospectus.

### **Operating Results**

#### ***Seven Months Ended July 31, 1997 Compared to July 31, 1996***

Revenues for the seven-month period ended July 31, 1997 were \$46.0 million, up \$1.2 million from 1996 on an increase of approximately 3,500 bbls/d in total volumes shipped. Revenues are generated based upon a toll charge per cubic metre for volumes of crude oil transported on the Pipelines. Volumes on the Bow River Pipeline System decreased approximately 8,400 bbls/d in 1997 due primarily to IPL Pipeline operational disruptions, transfer of crude oil volumes to other systems and reduced production due to unusually long and adverse weather conditions resulting in extended road restrictions during the spring months. Volumes on the Bow River Pipeline System have recovered from the earlier disruptions in 1997 with the August 1997 current month volume exceeding the year-to-date average volume by approximately 11,800 bbls/d. Based on the current drilling and production activity in the

Bow River Pipeline System area, average volumes for the remainder of 1997 are anticipated to either remain constant or continue to increase relative to current levels. Volumes on the Mid-Saskatchewan Pipeline System increased approximately 13,600 bbls/d with the majority of the increase relating to production from the recently discovered Marengo and Mantario oil fields. Volumes and revenues on the Koch Alberta Pipeline System and the Koch Valley Pipeline System remained relatively consistent with the prior period.

Operating costs were \$13.0 million, up \$2.8 million from 1996. The majority of the increase in 1997 operating costs related to preventive maintenance and pipeline integrity testing costs incurred as part of the ongoing environmental program, and efforts made to enhance the general condition of the Pipeline Assets. Future costs of the "smart pigging" inspection and repair program which began in late 1996 will be funded by Koch to a maximum of \$10.0 million. Clean-up and repair costs of \$570,000 were incurred during 1997 relating to a pipeline leak on the Mid-Saskatchewan Pipeline System.

The major operating cost components of the Pipeline Assets are electrical power, employee salaries relating to field operations and engineering activities, property taxes, and SCADA control and communications which have historically accounted for approximately 65% of total operating costs. Cost components are monitored with a focus on the economic value associated with cost decisions. The decision to incur any cost is evaluated in terms of customer service and prudent long term pipeline operations.

General and administrative expenses increased in the first seven months of 1997 by \$185,000 to \$1.7 million, due primarily to increased salary and benefit costs, and the addition of customer relations and compliance support staff. General and administrative expenses of the Pipeline Assets are those costs incurred to provide management and administration services for the pipeline business. A portion of the costs resulted from shared services with Koch. These expenses are charged to the Pipeline Assets based on the time spent on activities associated with the operation of the Pipeline Assets or other usage-based methods.

Depreciation expense increased \$217,000 over 1996 due to the continued capital spending relating to growth opportunities.

Operating cash flow for the seven month period ended July 31, 1997 was \$31.3 million, a decrease of \$1.9 million from 1996, primarily as a result of the increased preventive maintenance costs and the costs relating to the pipeline leak.

#### ***Year Ended December 31, 1996 Compared to December 31, 1995***

Revenues for the year ended December 31, 1996 were \$79.4 million, an increase of \$4.4 million from 1995 as volumes shipped on the Pipeline Assets increased by approximately 12,000 bbls/d to a total of 303,000 bbls/d. Continued increases in production volumes, primarily from the Taber, Jenner, and Suffield oil fields along the Bow River Pipeline System, added approximately 6,000 bbls/d to the system. The Mid-Saskatchewan Pipeline System gathering extension to the Marengo and Mantario fields was completed in April, 1996 and production development in the area contributed approximately 4,800 bbls/d to the overall average volume increase for the year. The volumes transported from the Marengo and Mantario oil fields continued to increase throughout the year and were averaging 9,400 bbls/d at year-end.

Operating costs were \$18.6 million and at the same level as 1995. Increases in 1996 for property taxes, electrical power costs and maintenance costs associated with the increase in throughput volumes were offset by the absence of non-recurring costs incurred in 1995.

General and administrative expenses in 1996 were \$3.0 million, an increase of \$286,000 over 1995 due primarily to increased support group costs in accounting, public affairs and drafting, and increased management, salary and benefit costs.

Depreciation expense in 1996 was \$6.8 million, up \$918,000 from 1995 as a result of growth capital spending for pipeline expansions and new battery connections.

Operating cash flow for the year ended December 31, 1996 was \$57.7 million, up \$4.1 million from 1995 due to the increased volumes shipped and the absence of the non-recurring costs which were incurred in 1995.

#### ***Year Ended December 31, 1995 Compared to December 31, 1994***

Revenues for the year ended December 31, 1995 were \$75.0 million, an increase of \$9.6 million from 1994 on an increase of approximately 30,000 bbls/d in volumes shipped. Approximately 22,000 bbls/d of the volume

increases resulted from increases in production, primarily from the Horsefly, Taber, Jenner, Suffield and Amisk areas along the Bow River Pipeline System corridor and from trucked volumes from the Marengo and Mantario areas in Saskatchewan.

Operating costs were \$18.6 million, an increase of \$1.2 million over 1994. The 1995 costs include a \$2.0 million charge related to a fire at the Chin Coulee pump station on the Bow River Pipeline System, including \$510,000 in temporary pumping costs incurred in order to minimize the disruption of the transportation of crude oil for shippers and producers using the system. These costs were offset by decreased expenditures of \$870,000 as a result of tank cleaning initiatives completed in 1994.

General and administrative expenses in 1995 remained consistent with 1994 at \$2.7 million.

Depreciation expense in 1995 was \$5.9 million, an increase of \$493,000 from 1994 as a result of growth capital spending for the Bow River Pipeline System southbound mainline capacity expansion and new battery connections.

Operating cash flow for the year ended December 31, 1995 was \$53.6 million, an increase of \$8.4 million from 1994 due to increases in volumes transported on the Pipelines.

### **Liquidity and Capital Resources**

The last several years have seen significant drilling and oil production activity in Canada, including the areas served by the Pipeline Assets. Koch has invested significant capital to meet its customers' needs through the construction of new battery connections, lateral gathering segments, and mainline capacity expansions.

Since 1992, capital expenditures have exceeded \$105 million to expand and maintain the Pipeline Assets, contributing to the throughput volume growth from 228,200 bbls/d in 1992 to 303,000 bbls/d in 1996. Capital expenditures for projects approved or underway at the time of the closing of the offering will be for the account of Koch, and will not be funded by the Partnership. Future capital expenditures for the account of the Partnership, will be funded by advances on a revolving credit facility with a Canadian chartered bank, the cash of the Partnership, or the issuance of additional Units.

Capital expenditures in the first seven months of 1997 were \$9.7 million. Included in the expenditures are: upgrades of mainline pumping capacity on the Bow River Pipeline System to accommodate further expected production increases in the Jenner and Suffield oil fields; and storage and capacity upgrades on the Mid-Saskatchewan Pipeline System related to expected production increases from the Marengo and Mantario oilfields. Expenditures for new battery connections, gathering capacity expansions and communications equipment were also incurred.

During 1996 capital expenditures were \$24.6 million. These expenditures included the gathering extension, mainline capacity expansion, and addition of storage capacity undertaken to connect the Marengo and Mantario oilfields to the Mid-Saskatchewan Pipeline System. Capital expenditures in 1996 also included the completion of several new battery connections and gathering capacity expansions, and the expansion of the Bow River Pipeline System southbound mainline capacity from 57,200 bbls/d to 96,200 bbls/d.

Capital expenditures were \$23.0 million in 1995. Expenditures were incurred to expand the Bow River Pipeline System southbound mainline capacity during the winter of 1995/1996. In addition, new battery connections and gathering capacity expansions on the Bow River Pipeline System, and a mainline capacity expansion on the Koch Alberta Pipeline System were completed during 1995.

## **FINANCIAL FORECAST OF KOCH PIPELINES CANADA, L.P.**

The Forecasted Statement of Income and Distributable Cash of Koch Pipelines Canada, L.P. (the "Partnership") for the year ending December 31, 1998 as well as the principal assumptions used to prepare the forecast, were prepared on behalf of the Partnership by the management of the General Partner in November, 1997 and approved by the General Partner on November 18, 1997.

The financial forecast was prepared according to generally accepted accounting principles and regulatory requirements relating to the evaluation, presentation and publication of financial forecasts. The forecast was prepared according to assumptions that reflect the courses of action that the General Partner and Partnership have planned to adopt for the period covered by the forecast, and reflects the General Partner's judgment as to the most probable future industry and economic conditions during the forecast period. Pursuant to applicable securities legislation, the Partnership will be required to update the forecast during the forecast period by identifying any significant changes resulting from events that have occurred during the period, or disclosing that no significant changes are required, and by comparing such forecast with annual and interim results.

Some of the assumptions used in the preparation of the forecast, although considered reasonable by the General Partner at the time of preparation, may prove to be incorrect. The actual results achieved for the forecast period will vary from the forecast results and the variations may be material. There is no representation by the General Partner that actual results achieved during the forecast period will be the same, in whole or in part, as those forecasted herein.

The forecast should be read in conjunction with the audited combined financial statements of Pipeline Assets, and the pro forma combined balance sheet of the Partnership appearing elsewhere in this prospectus.

## AUDITORS' REPORT ON FINANCIAL FORECAST

To the Board of Directors of Koch Pipelines Canada Ltd.,  
as general partner of Koch Pipelines Canada, L.P. (the "Partnership")

The accompanying financial forecast of the Partnership consisting of a statement of Income and Distributable Cash for the year ending December 31, 1998 has been prepared by management of the General Partner using assumptions with an effective date of November 18, 1997. We have examined the support provided by the management of the General Partner for the assumptions and the preparation and presentation of this financial forecast. Our examination was made in accordance with the applicable Auditing Guideline issued by The Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as of the date of this report, the assumptions developed by the management of the General Partner are suitably supported and consistent with the plans of the General Partner and provide a reasonable basis for the financial forecast;
- this financial forecast reflects such assumptions; and
- this financial forecast complies with the presentation and disclosure standards for forecasts established by The Canadian Institute of Chartered Accountants.

Since this forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this forecast will be achieved.

Calgary, Canada,  
November 18, 1997

(Signed) ERNST & YOUNG  
Chartered Accountants

**KOCH PIPELINES CANADA, L.P.**

**FORECASTED STATEMENT  
OF INCOME AND DISTRIBUTABLE CASH**

(Thousands except for  
Per Partnership Unit amounts)

|   | <u>Year ending<br/>December 31, 1998</u> |
|---|--|
| <b>Revenue</b> .....                                      | \$ 94,459                                |
| <b>Expenses:</b>  |  |
| Operating .....   | 22,114                                   |
| General and administrative .....                          | <u>4,745</u>                             |
| Income before the undernoted items .....                  | 67,600                                   |
| Depreciation .....  | 50,930                                   |
| Management fee .....                                      | <u>1,370</u>                             |
| Net income .....  | \$ 15,300                                |
| <br><b>Add (deduct):</b>                                  |  |
| Depreciation .....  | 50,930                                   |
| Capital expenditures on Pipeline Assets (note 4(b)) ..... | (14,791)                                 |
| Capital expenditures funded by Koch (note 4(b)) .....     | <u>12,974</u>                            |
| <b>Distributable Cash</b> .....                           | <u><u>\$ 64,413</u></u>                  |
| <br><b>Per Class A Unit (Note 3(b))</b>                   |  |
| Net income .....  | <u><u>\$ 0.21</u></u>                    |
| Distributable Cash .....                                  | <u><u>\$ 0.88</u></u>                    |

*See accompanying notes*

# KOCH PIPELINES CANADA, L.P.

## NOTES TO FINANCIAL FORECAST FOR THE YEAR ENDING DECEMBER 31, 1998

### 1. BASIS OF PRESENTATION

The financial forecast of Koch Pipelines Canada, L.P. (the "Partnership") has been prepared by Koch Pipelines Canada Ltd. (the "General Partner") and was completed on November 18, 1997 and approved by the Board of Directors of the General Partner on November 18, 1997.

The financial forecast was prepared in accordance with generally accepted accounting principles and consists of the Forecasted Statement of Income and Distributable Cash of the Partnership for the year ending December 31, 1998. The forecast excludes the operations of the Partnership for the period from August 1, 1997 to December 31, 1997. Distributable Cash generated from closing on November 27, 1997 to December 31, 1997 will also be available for distribution to Class A Unitholders. The forecast includes only the revenues and expenses of the Partnership and excludes the revenues and expenses of any Partner.

The financial forecast presents information about the prospective results of operations and distribution of cash of the Partnership based on assumptions that reflect the planned courses of action for the Partnership and the General Partner's judgment as to the most probable future industry and economic conditions. The forecast assumes that the following transactions will be completed on January 1, 1998.

- (a) the issuance by the Partnership of 37,500,000 Class A Units for net proceeds of \$353,312,500 after deducting estimated underwriters' fees and expenses of this offering in the aggregate amount of \$21,687,500, and aggregate obligations of \$150,000,000 under Instalment Receipts;
- (b) the acquisition of a 100% interest in the Bow River, Koch Alberta, Koch Valley and Mid-Saskatchewan Pipeline Systems (the "Pipeline Assets") by the Partnership from the General Partner, in consideration for the issuance by the Partnership of 35,700,000 Class B Units, a \$203,312,500 cash payment and \$150,000,000 payable in one year. The amount of the purchase price to be allocated to the capital assets acquired is estimated to be approximately \$678,832,000.

The Partnership will be owned by the public and the General Partner. Koch Industries Inc. ("Koch Industries") will have an approximate 48.8% indirect ownership in the Partnership through its ownership in the General Partner. The Partnership will record the acquisition of the assets at their \$689.7 million exchange amount.

Under existing income tax legislation, the Partnership will not be subject to income taxes directly, however, the limited and general partners of the Partnership are subject to tax on their proportionate interest in the income earned by the Partnership.

Users of this financial forecast are cautioned that, since the forecast is based on assumptions regarding future events, actual results achieved for the forecast period will vary from the information presented and that the variations may be material.

### 2. STRUCTURE OF THE PARTNERSHIP

The Partnership is a limited partnership created under the laws of the Province of Alberta pursuant to an agreement, dated October 9, 1997 (the "Partnership Agreement"), made between the General Partner, as general partner, and 687371 Alberta Ltd., as the limited partner.

The Partnership will distribute, on a quarterly basis, Distributable Cash to holders of the Partnership Units. The definitions of Distributable Cash, Operating Cash and the distribution policy of the Partnership are more particularly described under the headings "Quarterly Cash Distributions" and "Calculation of Distributable Cash" in the prospectus of which this forecast constitutes a part.

The Partnership will own the Pipeline Assets. Under the Partnership Agreement, the General Partner will be entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of the Partnership. The General Partner will also receive an annual base fee equal to 2% of the Partnership's annual "Operating Cash". In addition, the General Partner will be entitled to earn an annual incentive fee calculated as a percentage of the Partnership's annual Distributable Cash per unit, an acquisition fee of 1.0% of the purchase price of any assets acquired by the Partnership excluding the acquisition of the Pipeline Assets, and a disposition fee of 0.5% of the sale price of any assets sold by the Partnership. No incentive fees, acquisition fees or divestiture fees have been assumed to be earned by the General Partner during the forecast period.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of this financial forecast requires the use of estimates and assumptions. In the opinion of the management of the General Partner, this financial forecast has been properly prepared within reasonable limits of materiality and in accordance with the accounting policies expected to be used by the Partnership for the year ending December 31, 1997 and thereafter, including:

#### (a) Capital assets

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Depreciation of property, plant and equipment for pipelines facilities and equipment, calculated on the fair value purchase price of the assets, commences when the pipelines are placed in commercial operation and is provided on a declining balance basis over their estimated service lives which range from 15 to 25 years. The service life for pipeline systems is determined with reference to the remaining life of the crude oil reserves gathered on the particular pipeline systems.

**(b) Net income and Distributable Cash per Class A unit**

Class A and Class B units share equally on a pro rata basis in the allocation of net income and Distributable Cash. The amount reported for net income and Distributable Cash per Class A unit is based on the Class A Unit pro rata share and the number of Class A units forecast to be outstanding for the year.

**4. ASSUMPTIONS**

**(a) Revenue and operating costs**

**(i) Revenues**

Revenues are based on forecast volumes of shipments to be delivered through the various pipeline systems and expected toll rates. The forecast volumes represent the aggregate volumes expected to be shipped based on current shipment levels (modified as appropriate based on discussions with producers, lateral-specific histories, reserve estimations or a combination of such information), and volumes expected to be shipped relating to approved or planned expansion projects. Expected toll rates are based on current shipping arrangements and tolls expected to be earned on planned expansions (based on discussions with the affected shippers).

Average daily throughput volumes for the year ended December 31, 1996, the eight months ended August 31, 1997 and for the forecast period are as follows:

Average volumes shipped per day:

|  | Year Ended<br>December 31,<br>1996<br>(Actual) | Eight Months<br>Ended<br>August 31,<br>1997<br>(Actual)<br>(mbbls) | Year Ended<br>December 31,<br>1998<br>(Forecast) |
|--|--|--|--|
| Bow River Pipeline System .....        | 197.8  | 189.9  | 206.0  |
| Mid-Saskatchewan Pipeline System ..... | 32.1   | 40.8   | 46.7   |
| Koch Alberta Pipeline System .....     | 66.7   | 63.2   | 62.7   |
| Koch Valley Pipeline System .....      | 6.4  | 7.0  | 6.7  |
|  | <u>303.0</u>                                   | <u>300.9</u>   | <u>322.1</u>                                     |

Expansions planned or underway on the various systems are assumed to add volumes of approximately 26.3 mbbls/day to the Bow River Pipeline System commencing January, 1998; and volumes of approximately 5.7 mbbls/day to the Mid-Saskatchewan Pipeline System commencing January, 1998.

**(ii) Operating costs**

Operating costs are comprised of field and engineering salaries and wages, the costs of maintaining the pipeline scheduling and communications systems, power costs, property taxes and repairs and maintenance expenditures. The forecast operating costs are based on historical results, recent operating experience and trends, operating budgets, and forecast volumes, including the growth in the systems resulting from the planned expansions.

**(b) Capital expenditures**

Aggregate capital expenditures estimated to be approximately \$20.7 million, to be incurred on projects underway or approved at the time of the closing of this offering will be funded by Koch and will not be charged to the Partnership. These capital expenditures are being incurred to increase throughput and capacity and enhance product stream management flexibility which is expected to occur during the forecast period. All benefits associated with this capital expenditure program will enure to the Partnership. Of the \$20.7 million, \$7.690 million is expected to be expended in 1997 and \$12.974 million is expected to be expended in 1998.

In addition \$1.817 million of maintenance capital expenditures are forecast to be incurred in 1998 and be funded by the Partnership.

This forecast reflects the aggregate 1998 capital expenditures of \$14.791 million, of which \$12.974 million will be funded by Koch.

**(c) Management fee and general and administration expenses**

Under the terms of the Partnership Agreement, the General Partner is entitled to recover its general and administrative expenses incurred in managing the Pipeline Assets as well as those general and administrative expenses incurred by the Partnership. In addition, the General Partner will earn a fee of 2% of the Partnership's annual Operating Cash and certain additional incentive fees for increasing the profitability and Distributable Cash of the Partnership. The financial forecast includes an annual base fee payable to the General Partner for management of the affairs of the Partnership.

General and administrative expenses relating to operating and managing the Pipeline Assets have been estimated by the General Partner based on historical experience and growth expectations. Forecast general and administrative expenses of the Partnership represent direct and indirect costs expected to be incurred by the Partnership, including statutory reporting requirements, audit and legal fees, stock exchange listing fees and costs related to investor relations activities.

**(d) Interest on long-term debt**

The Partnership expects to have in place a revolving unsecured credit facility in the amount of \$50 million with a Canadian chartered bank. The forecast assumes the credit facility will not be required to finance the forecast capital expenditures.

**(e) Future site restoration and abandonment costs**

Pipeline Asset operations will be charged with any costs associated with the future site restoration and abandonment of the Pipeline Assets. The potential costs of abandonment will be a function of a number of factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from simply emptying the pipeline and capping all open ends to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the Pipeline Assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the Pipeline Assets can reasonably be determined, estimated costs will be provided over the remaining life of the Pipeline Assets. The forecast assumes no abandonments during the forecast period.

**(f) General assumptions**

Revenues and expenses for the forecast period are based on actual estimates and therefore no inflation assumption has been made.

## THE GENERAL PARTNER

The General Partner, incorporated under the laws of Alberta, is an indirect, wholly-owned subsidiary of Koch Industries.

### Director and Officers of the General Partner

The following table sets out the full name, municipality of residence and office with the General Partner, for each director and officer of the General Partner as well as their principal occupations during the past five years:

| <u>Name and Municipality</u>                                   | <u>Position</u>   | <u>Principal Occupation</u>  |
|--|---|--|
| Randolph C. Aldridge . . . . .<br>Wichita, Kansas              | Director  | President, Koch Oil Company, a division of Koch Industries                                   |
| Stephen K. Kromer . . . . .<br>Calgary, Alberta                | Director  | President, Koch Exploration Canada Ltd., an indirect subsidiary of Koch Industries           |
| Joseph W. Moeller . . . . .<br>Wichita, Kansas                 | Director  | Executive Vice-President and Director, Koch Industries                                       |
| Derek Brown <sup>(1)</sup> . . . . .<br>Toronto, Ontario       | Director  | Adjunct Professor of Finance, University of Toronto  |
| Keith F. Miller <sup>(1)</sup> . . . . .<br>Calgary, Alberta   | Director  | Partner, Burnet, Duckworth & Palmer, barristers and solicitors                               |
| Robert T. Swinton <sup>(1)</sup> . . . . .<br>Calgary, Alberta | Director  | President, Western Provinces Resources Ltd., a personal investment and consulting company    |
| David W. Fesyk . . . . .<br>Calgary, Alberta                   | President, Chief Executive Officer and Director               | Vice-President, Transportation, Koch Oil Co. Ltd., an indirect subsidiary of Koch Industries |
| Frank Janzen . . . . .<br>Calgary, Alberta                     | Vice-President Operations                                     | President, Bow River Pipe Lines Ltd., an indirect subsidiary of Koch Industries              |
| David G. Park . . . . .<br>Calgary, Alberta                    | Vice-President Finance, Chief Financial Officer and Secretary | Chief Financial Officer, Koch Oil Co. Ltd., an indirect subsidiary of Koch Industries        |

Note:

(1) Independent Director. The three Independent Directors will be appointed immediately following the closing of the offering.

During the last five years, all of the directors and officers have served in various capacities with Koch, except Messrs. Brown, Miller, Swinton and Park. Mr. Brown has been an Adjunct Professor of Finance in the Joseph L. Rotman School of Management and prior thereto a Special Lecturer at the University of Toronto since October 31, 1996. Prior thereto Mr. Brown was Vice President and Director of RBC Dominion Securities Inc., an investment dealer. Mr. Miller has been a Partner of Burnet, Duckworth & Palmer since January 1, 1996 and for the 11 months prior thereto, was an Associate with such firm. Prior to joining Burnet, Duckworth & Palmer Mr. Miller was a Partner of MacKimmie Matthews, barristers and solicitors, since 1991. Mr. Swinton has been President and Director of Western Provinces Resources Ltd. since June 1997. Mr. Swinton was Chairman and Chief Executive Officer of Kenting Energy Services Inc., an oilfield services company, between January 1997 and May 1997 when such company was acquired. Prior thereto Mr. Swinton was Chairman and Chief Executive Officer of Enserv Corporation, a diversified oilfield services company. Mr. Park has served in various capacities with Koch since October, 1994. Prior thereto Mr. Park was employed with Atomic Energy of Canada Ltd.

Each of the Independent Directors will receive annual directors' fees of \$20,000, plus \$1,500 for each Board of Directors' meeting attended. No remuneration will be paid to any of the other directors serving on the Board of Directors.

## ***Background and Experience of Key Management of the General Partner***

### ***David W. Fesyk, President and Chief Executive Officer***

Mr. Fesyk joined Koch in 1991 and has held several senior positions within Koch's Canadian crude oil marketing, transportation and commercial development operations. Most recently Mr. Fesyk held the positions of General Manager Business Development and Vice President, Transportation of Koch Oil Co. Ltd. Prior to joining Koch, Mr. Fesyk gained experience in both the upstream and downstream sectors of the oil and gas industry through employment with Esso Petroleum Canada Ltd. and geological consulting firms. Mr. Fesyk graduated from Arizona State University in 1984 with a Bachelor of Science degree in Earth Science. He also earned a Master of Business Administration degree from the University of Calgary in 1993.

### ***Frank Janzen, P.Eng., Vice-President Operations***

During his 22 year tenure with Koch, Mr. Janzen has been directly involved in the operation and management of the Pipeline Assets. Mr. Janzen joined Koch in 1975 as a Field Engineer with the Bow River and Mid-Saskatchewan Pipeline Systems, and was promoted to Senior Engineer in April, 1984, with a further promotion to President of Bow River Pipe Lines Ltd. and Mid-Saskatchewan Pipe Lines, Ltd. in August, 1984. Since October 1991, Mr. Janzen has also served as Vice-President of Koch Pipelines Ltd., which owns the Koch Alberta and Koch Valley Pipeline Systems. Mr. Janzen graduated from the University of Calgary in 1975 with a Bachelor of Science Degree in Electrical Engineering.

### ***David G. Park, Vice-President Finance, Chief Financial Officer and Secretary***

Mr. Park joined Koch in 1994 as a member of Koch's corporate development group at Koch's headquarters in Wichita, and was appointed Chief Financial Officer of Koch Oil Co. Ltd. in May 1996. Prior to joining Koch, Mr. Park served in a number of international business development positions at Atomic Energy of Canada Ltd. Mr. Park graduated from Texas A&M University in 1988 with a Bachelor of Science in Economics, and from George Mason University in 1989 with a Master of Arts in Economics.

## **Support Agreement**

Pursuant to the Support Agreement, Koch will provide the General Partner with the personnel and services necessary to administer and manage the Partnership and operate its business as contemplated by the Partnership Agreement.

## **THE PARTNERSHIP AGREEMENT**

The following is a summary of certain principal features of the Partnership Agreement. A copy of the Partnership Agreement is attached hereto. The following discussion is qualified in its entirety by reference to the Partnership Agreement. Prospective investors are urged to review the Partnership Agreement carefully. **Only persons who are residents of Canada or, if partnerships are Canadian partnerships, in each case, for purposes of the Tax Act may own Class A Units or purchase Class A Units pursuant to this offering. Ownership restrictions are also applicable to persons an interest in which would be a "tax shelter investment" for purposes of certain proposed amendments to the Tax Act and to certain persons associated with Koch. See "The Partnership Agreement — Transfer of Class A Units and Ownership Constraints".**

## **Business**

Under the Partnership Agreement, the Partnership's business will be restricted to activities which are directly or indirectly related to the transportation, storage, marketing and processing of hydrocarbons, and to holding investments in other entities which are primarily engaged in these activities.

## **Capitalization**

The Partnership may issue an unlimited number of Class A Units and an unlimited number of Class B Units. The Class A Units may be issued to any party, including Koch Industries and its affiliates, but excluding persons who are not residents of Canada or partnerships which are not Canadian partnerships for purposes of the Tax Act, persons an interest in which would be a "tax shelter investment" for purposes of certain proposed amendments to the Tax Act and certain persons associated with Koch. See "Transfer of Class A Units and Ownership Constraints". The Class B Units will only be issued to Koch and its subsidiaries (including the General Partner) and will be

automatically converted into Class A Units immediately following such time as such Class B Units cease to be held by Koch, subject, in the case of a transfer of Class B Units to a successor general partner of the Partnership, to the requirement that the successor general partner must hold Class B Units representing not less than 0.1% of the total number of Units outstanding. The Class B Units will also be convertible into Class A Units at the option of Koch in the event the General Partner ceases to be general partner of the Partnership. While Class B Units may only be issued to Koch and its subsidiaries and will be issued to the General Partner pursuant to the Asset Purchase Agreement, there is no requirement in the Partnership Agreement that Koch be issued only Class B Units. Koch may, therefore, acquire Class A Units from the Partnership in the future. Class A Units and Class B Units shall be of equal rank and each unit shall generally possess the same rights, privileges and obligations except that holders of Class B Units will not be Limited Partners and will accordingly not have the benefit of limited liability.

### **Capital Contributions**

The General Partner will transfer the Pipeline Assets to the Partnership pursuant to the Asset Purchase Agreement in consideration for approximately \$353.3 million in cash (\$150.0 million of which will be payable on the first anniversary of closing) and 35,700,000 Class B Units which will represent a 48.8% Partnership Interest after the issue of Class A Units pursuant to this offering. The Class B Units to be issued to the General Partner will be fully paid for in property, being a portion of the Pipeline Assets to be transferred to the Partnership. Pursuant to the Underwriting Agreement, an aggregate of 37,500,000 Class A Units will be offered to the public pursuant to this offering for the price of \$10.00 per Unit. The Class A Units to be issued to the public will be fully paid for by the \$6.00 per Class A Unit initial instalment and the \$4.00 per Class A Unit final instalment.

### **Distributions**

The Partnership Agreement provides that the Partnership will make distributions of all Distributable Cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of such quarter. Payments will be made on or about the 30th day after each record date. The distribution in respect of the initial period ending December 31, 1997 is expected to be paid on January 31, 1998 to Unitholders of record on December 31, 1997. The General Partner will have the authority to amend the Partnership Agreement without the approval of the Limited Partners to provide for distributions of Distributable Cash more frequently than on a quarterly basis, provided, however, that a change in the frequency of distributions may not be made by the General Partner more often than once in any twelve month period.

The Partnership Agreement also provides that for the purposes of the Partnership Act (Alberta), distributions of Distributable Cash shall be considered to be returns of capital to the Partners until such time as 99.9% of the aggregate of all Partners' capital contributions have been repaid or returned. Thereafter, no further returns of capital shall be made to the Partners until dissolution of the Partnership.

### **Calculation of Distributable Cash**

The ability of the Partnership to make distributions to Unitholders is dependent upon the Distributable Cash generated from the Pipeline Assets commencing on closing of this offering. "Distributable Cash" will be equal to "Operating Cash" (as herein defined), adjusted for certain other items.

Operating cash ("Operating Cash") from the Pipeline Assets and New Assets, if any, will be determined as follows:

- (i) the aggregate of revenues earned with respect to the operations of the Pipeline Assets and any New Assets, including toll and other revenues associated with the transportation of products through the facilities comprising the Pipeline Assets and any New Assets;  
minus the aggregate of:
- (ii) the direct and indirect operating costs incurred in connection with the business and undertaking referred to in (i) or incurred in maintaining the assets or defending title thereto (excluding the costs to a maximum of \$10.0 million of the "smart pigging" inspection program described under "Other Matters Relating to the Pipeline Assets — Pipeline Integrity and Environmental Matters"); plus
- (iii) the direct and indirect general and administrative costs incurred in connection with the business and undertaking referred to in (i); plus

- (iv) other direct and indirect costs, not included in (ii) or (iii), incurred in earning the revenues from the sources referred to in (i);

“Distributable Cash” is equal to Operating Cash plus the aggregate of:

- (a) interest and other income earned by the Partnership; plus
- (b) cash proceeds from capital transactions, such as borrowings, issuances of Units and sales of assets; plus
- (c) reductions in reserves previously established by the General Partner (see “— Cash Reserves”); plus
- (d) any tax refunds received, which relate to taxes previously deducted in the computation of Distributable Cash;  
minus the aggregate of:
  - (e) direct and indirect general and administrative costs incurred by the Partnership (to the extent not already deducted in determining Operating Cash); plus
  - (f) debt service costs, including interest, principal, fees and discounts with respect to indebtedness incurred by or in connection with the Partnership, the Pipeline Assets or New Assets; plus
  - (g) current income, capital, withholding and other taxes accruing which are reasonably related to amounts included in computing Distributable Cash; plus
  - (h) increases in reserves established by the General Partner (see “— Cash Reserves”); plus
  - (i) any capital expenditures incurred in connection with the Pipeline Assets and New Assets (excluding the cost to complete the expansion projects underway at the time of closing described under “Other Matters Relating to the Pipeline Assets — Capital Expansion Projects”); plus
  - (j) the management fee, the incentive and other fees and reimbursements (to the extent such fees and reimbursements have not been deducted in the calculation of Operating Cash) paid or payable to the General Partner as described under “— Compensation and Reinstatement of General Partner.”

All amounts to be included in the computation of Distributable Cash will be determined in accordance with generally accepted accounting principles in Canada as applied by the Partnership in the preparation of its financial statements. In the event of any uncertainty over the application of such principles in determining the amount to be included in Distributable Cash, the auditors of the Partnership will make such determinations as may be required.

The amount of Distributable Cash payable to Unitholders will depend on a number of factors. These factors include pipeline throughput and the applicable rates, tolls and charges thereon, operating and administrative expenses incurred in relation to current operations, general and administrative expenses incurred by the Partnership (including legal and audit fees, stock exchange listing fees, transfer agents fees, Unitholder information costs and the management, incentive and other fees payable to the General Partner), capital expenditures on expansions or acquisitions and debt servicing requirements.

### **Cash Reserves**

Under the Partnership Agreement, the General Partner has the authority: to establish cash reserves that are determined to be necessary or appropriate to provide for the proper management and operation of the Partnership and the Pipeline Assets and New Assets, if any, including cash reserves for capital or maintenance expenditures; to fund the cost of abandonment of the Pipeline Assets and New Assets, if any; or other environmental obligations associated with the Pipeline Assets and New Assets, if any: to stabilize distributions of Distributable Cash to Unitholders; to reduce debt; or, as necessary to comply with the terms of any agreement or obligation of the Partnership. The General Partner has broad discretion in establishing, maintaining, increasing and decreasing reserves, and its decisions regarding reserves could have a significant impact on the amount of Distributable Cash. The establishment and funding of reserves will reduce Distributable Cash. The timing of additions to and distributions from such reserves may result in the realization of taxable income by Unitholders in a year prior to that in which funds resulting therefrom are distributed.

### **Allocation of Income and Loss**

The income for tax purposes of the Partnership for a given fiscal year of the Partnership will be allocated to each Partner in an amount calculated by multiplying such income by a fraction, the numerator of which is the sum

of the cash distributions received by such Partner with respect to such fiscal year, and the denominator of which is the aggregate amount of the cash distributions made by the Partnership with respect to such fiscal year.

If, with respect to a given fiscal year, no cash distribution is made by the Partnership to its Partners, or the Partnership has a loss for tax purposes, one quarter of the income, or loss, as the case may be, for tax purposes of the Partnership for such fiscal year will be allocated to the Partners of record at the end of each calendar quarter ending in such fiscal year, in the proportion that the number of Units held at each such date by a Partner is of the total number of Units issued and outstanding at each such date.

The amount of income or loss allocated to a Partner may exceed or be less than the amount of cash distributed to such Partner.

## **Management**

The General Partner has all the rights and authority of a general partner according to the *Partnership Act* (Alberta), and any other right or authority otherwise granted by law. It is authorized to carry on the business of the Partnership, and subject to the limitations under “— Restrictions on Authority of General Partner”, the General Partner has full power and exclusive authority to administer, manage, control and operate the business of the Partnership. The General Partner may from time to time delegate such power and authority or procure assistance from other parties.

Under the Partnership Agreement, the General Partner is specifically authorized to, among other things:

- (a) purchase and dispose of property, other than a sale, exchange or disposition that would be of all or substantially all of the assets of the Partnership, in a single transaction or a series of related transactions (see “— Restrictions of Authority of General Partner”);
- (b) acquire securities of entities engaged primarily in activities which are permitted activities for the Partnership;
- (c) conclude, execute and carry out any agreement with respect to the business of the Partnership;
- (d) maintain, improve, expand, extend or change the Pipeline Assets and any other assets or undertaking from time to time of the Partnership;
- (e) see to the sound management of the Partnership;
- (f) borrow money in the name of the Partnership from the General Partner or its affiliates or financial institutions as determined by the General Partner, without limitation with regard to amount, cost or conditions of reimbursement of such loan, other than limitations on the amount of borrowings imposed on the General Partner as discussed under “Capitalization of the Partnership — Borrowing Restrictions”;
- (g) secure the payment of amounts of money borrowed by, and related expenses of, the Partnership with assets of the Partnership;
- (h) cause the Partnership to issue additional Units; and
- (i) do anything that is in furtherance of or is incidental to the business of the Partnership.

## **Independent Directors**

The Partnership Agreement requires that the General Partner have not more than seven directors of which at least three must be Independent Directors. The Partnership Agreement further provides that during any period in which Koch owns, directly or indirectly, less than 30% of the issued and outstanding Units, not less than four of the directors of the General Partner must be Independent Directors.

## **Restrictions on Authority of General Partner**

The authority of the General Partner is limited in certain respects under the Partnership Agreement. The General Partner is prohibited, without the prior approval of holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units, from selling, exchanging or otherwise disposing of all or substantially all of the assets of the Partnership in a single transaction or a series of related transactions, provided that the General Partner may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership without such approval. The General Partner may also sell all or substantially all of the assets of the Partnership pursuant to a foreclosure or other realization

upon the foregoing encumbrances without such approval. Except as provided in the Partnership Agreement and generally as described under “— Amendment of Partnership Agreement”, any amendment to a provision of the Partnership Agreement generally will require the approval of the holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units.

Any sale of assets to the Partnership, or the sale of assets of the Partnership by the Partnership will also be subject to requirements of applicable law. In the event that the Partnership is purchasing assets from, or selling assets to, the General Partner or a related party of the General Partner, then it may be necessary to comply with certain requirements in Ontario Securities Commission Policy 9.1 and Quebec Securities Commission Policy Q-27 where such policies are applicable.

### **Issuance of Additional Units**

The Partnership Agreement authorizes the General Partner to cause the Partnership to issue additional Units for such consideration and on such terms and conditions as shall be established by the General Partner. Although the General Partner in its discretion may utilize a rights offering to issue additional Units, Partners, other than the General Partner, will not have a pre-emptive right to acquire such additional Units in proportion to their existing ownership of Units. The General Partner will have a pre-emptive right to acquire (or to cause an affiliate to acquire), such additional Units in proportion to its existing ownership of Units. The General Partner currently anticipates that it would exercise its pre-emptive rights in order to maintain its Partnership Interest at approximately 48.8%.

### **Compensation and Reimbursement of General Partner**

The Partnership Agreement provides for an annual base fee to be paid to the General Partner equal to 2.0% of the Partnership's annual Operating Cash. In addition, as an incentive to the General Partner to enhance the profitability of the Partnership and the cash distributions paid in respect of the Units, the General Partner will be entitled to earn an annual incentive fee calculated as a percentage of available Distributable Cash. The percentage of available Distributable Cash payable to the General Partner as an incentive fee will be 15% of available Distributable Cash in excess of \$1.01 per Unit annually but less than or equal to \$1.10 per Unit annually, 25% of available Distributable Cash in excess of \$1.10 per Unit annually but less than or equal to \$1.19 per Unit annually and 35% of available Distributable Cash in excess of \$1.19 per Unit annually. For example, if available Distributable Cash per Unit for a fiscal year was equal to or less than \$0.88 (which amount represents the forecast for Distributable Cash per Unit for the year ended December 31, 1998 — see “Financial Forecast”), \$1.05 or \$1.25 and assuming that the incentive fee is calculated on the basis of 37,500,000 Class A Units and 35,700,000 Class B Units being outstanding, then the incentive fee which would be payable would be nil, \$439,200 and \$4,172,400, respectively. The incentive fee will be paid at the time of distribution of Distributable Cash for the last calendar quarter of each year. No incentive fees will be payable to the General Partner for the period from closing of the offering to December 31, 1997. In addition, the General Partner will be paid an acquisition fee equal to 1.0% of the purchase price of any New Assets acquired by the Partnership, and a disposition fee equal to 0.5% of the sale price of any assets sold by the Partnership. No acquisition fee will be payable in connection with the purchase of the Pipeline Assets by the Partnership.

The General Partner will be entitled to recover all of its direct and indirect operating, general and administrative and other costs and expenses incurred for and on behalf of the Partnership or in the performance of its duties as general partner of the Partnership. The Partnership will be responsible for all of its costs and expenses including, without limitation, all of its direct and indirect general and administrative, operating and other costs and expenses relating to the operation of the Pipelines Assets and any New Assets. The costs and expenses for which the Partnership is responsible and which the General Partner will be entitled to recover include, without limitation, legal and audit fees, stock exchange listings fees, transfer agent's fees, Unitholder information costs, consulting and advisory fees incurred in connection with the Partnership's business or the evaluation of investment opportunities by the Partnership, fees paid to third parties, including Koch, for services rendered to the General Partner or the Partnership (provided that fees paid to Koch pursuant to the Support Agreement may not exceed Koch's cost of providing such services), expenses associated with the issuance of Units, and costs incurred by the Independent Directors in evaluating matters relating to the Partnership, including any directors' fees or incidental travel expenses paid to such Independent Directors.

## Activities and Liability of Limited Partners

The Partnership was formed as a limited partnership under the *Partnership Act* (Alberta) in order for a Limited Partner to benefit from limited liability except in respect of the capital contributed to the Partnership plus undistributed income of the Partnership. On or before closing of this offering, the Partnership will be registered or extra-provincially registered in all the provinces of Canada when such registration is required. **A Limited Partner may lose the protection of limited liability if it takes part in the control of the business of the Partnership or does not comply with legislation governing limited partnerships in force in provinces where the Class A Units are offered for sale or where the Partnership carries on business.**

Limited Partners are not permitted, in that capacity, to, among other things, take part in the administration, management, control or operation of the business of the Partnership, to transact any business on behalf of the Partnership, or make any commitment on behalf of, or otherwise obligate or bind the Partnership. The General Partner will not be so restricted although it may own Class A Units.

If limited liability of the Limited Partners is lost by reason of the negligence of the General Partner in performing its duties and obligations under the Partnership Agreement, the General Partner is required to indemnify the Limited Partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Partnership Agreement.

**While the General Partner has unlimited liability for the obligations of the Partnership, and has agreed to indemnify the Limited Partners in circumstances referred to above, the General Partner may not have sufficient assets to honor its obligations under such indemnification.**

Unlike the Limited Partners, the General Partner will have unlimited liability for the liabilities and obligations of the Partnership, but will be entitled to indemnification from the Partnership. See “— Indemnification”.

## Transfer of Class A Units and Ownership Constraints

Except to the extent described below, Class A Units are fully transferable at the expense of the transferee. A Class A Unit is not, however, transferable in part and no transfer of a Class A Unit will be recognized by the General Partner unless a transfer form duly completed and signed by the registered holder of the Class A Unit and by the transferee, and the certificate representing such Class A Unit have been remitted to the registrar and transfer agent for the Class A Units.

**The General Partner will deny a transfer of Class A Units to any person who is not an Eligible Investor. To be an “Eligible Investor” a person must not be (i) a non-resident or a partnership that is not a Canadian partnership for purposes of the Tax Act, (ii) a person an interest in which would be a “tax shelter investment” for purposes of certain proposed amendments to the Tax Act, or (iii) a present or former direct or indirect shareholder of Koch Industries or an associate or affiliate of a present or former direct or indirect shareholder of Koch Industries. For these purposes, the terms “associate” and “affiliate” do not include Koch Industries, the General Partner, the Partnership or any direct or indirect subsidiary of Koch Industries.**

A transferee of a Class A Unit will become a Limited Partner and shall be subject to the obligations and entitled to the rights of Limited Partners under the Partnership Agreement on the date on which the General Partner amends the certificate of limited partnership under the *Partnership Act* (Alberta) to reflect that the transferee is a Limited Partner. The Partnership Agreement requires that the Partnership’s certificate of limited partnership be amended as at the end of each calendar quarter, if necessary, to reflect changes in Partners during the course of such quarter.

**No transfer of a Class A Unit will be registered by the Partnership unless the transferee certifies in the transfer form that the transferee is an Eligible Investor. In the transfer form, the transferee must also request admission as a substituted Limited Partner in the Partnership, agree to be bound by the terms and conditions of the Partnership Agreement and grant a power of attorney to the General Partner. Until a Class A Unit has been transferred on the books of the registrar and transfer agent, and the certificate of limited partnership is amended, the Partnership shall treat the record holder thereof as the absolute owner thereof for all purposes.**

**Class A Units may not be held, directly or indirectly, by any person who is not an Eligible Investor. By executing the transfer form, each transferee of a Class A Unit represents to the General Partner and to all other Limited Partners that it is an Eligible Investor and covenants to retain such status for as long as it remains a Limited Partner. If the transferee is acquiring Class A Units on behalf of a beneficial owner, the transferee must represent**

that the beneficial owner is an Eligible Investor. If the General Partner determines that a person is or has become, directly or indirectly, a holder of Class A Units in contravention of the foregoing restrictions, or if the holder fails to provide satisfactory evidence with respect to the residency or other relevant status of the holder, the General Partner will require the holder to dispose of the Class A Units to a person who does not contravene the foregoing restrictions, failing which the General Partner, subject to compliance with applicable securities laws, has the right to sell the Class A Units or to acquire the Class A Units on behalf of the Partnership. **In addition, in the event the General Partner determines that a person has become a holder of Class A Units in contravention of the foregoing restrictions, the holder of the subject Class A Units shall be deemed to have ceased to be a Limited Partner in respect of its ownership of such Class A Units effective immediately prior to the date of contravention and shall not be entitled to any distributions of Distributable Cash and such Class A Units shall be deemed not to be outstanding until acquired by a new holder who complies with such restrictions; provided that holders of other Class A Units shall not be entitled to any portion of Distributable Cash paid in respect of Class A Units that have been so deemed not to be outstanding.**

### **Take-Over Bids**

The Partnership Agreement contains provisions to the effect that if a take-over bid is made for Class A Units and not less than 90% of the Class A Units are held by the offeror following the takeover bid, the offeror will be entitled to acquire the Class A Units held by Unitholders who did not accept the offer on the terms offered by the offeror. The Partnership Agreement does not require that a take-over bid made for Class A Units also be made for Class B Units in order for the foregoing to be applicable. However holders of Class B Units may convert their Class B Units into Class A Units in the circumstances described under “— Capitalization”.

### **Power of Attorney**

The transfer form required to be signed on the transfer of a Class A Unit, and the Partnership Agreement, each include an irrevocable power of attorney authorizing the General Partner on behalf of Unitholders to, among other things, execute any amendments to the Partnership Agreement and all instruments necessary to reflect the dissolution of the Partnership as well as any elections, determinations or designations under the Tax Act or taxation legislation of any province or territory with respect to the affairs of the Partnership or a Unitholder's interest in the Partnership.

### **Withdrawal or Removal of the General Partner**

The General Partner has agreed not to voluntarily withdraw as general partner at any time prior to the fifth anniversary of the closing of this offering, provided that: (i) if the General Partner is an affiliate of Koch, the General Partner may withdraw without Limited Partner approval on 90 days' written notice to the Limited Partners in the event that Koch decides to no longer be involved, directly or indirectly, in the operation of pipelines in North America; (ii) the General Partner may withdraw if such withdrawal is approved by holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units excluding, in each case, Units held by the General Partner and its affiliates, after which event the General Partner may withdraw as general partner by giving 90 days' written notice; or (iii) the General Partner may withdraw without Limited Partner approval upon 90 days' written notice to the Limited Partners if more than 50% of the outstanding Units are directly or indirectly held or controlled by one person and its affiliates other than the withdrawing General Partner and its affiliates. In addition, the Partnership Agreement does not restrict the ability of Koch's or its affiliates to sell all or any portion of the General Partner to a third party or parties without the approval of the Limited Partners.

After the fifth anniversary of the closing of this offering, the General Partner may withdraw in the circumstances described in items (i), (ii) and (iii) above, and, in addition, may withdraw without Limited Partner approval on 12 months' notice to the Limited Partners, or on 90 days' written notice to the Limited Partners if such withdrawal is approved by the Independent Directors.

Koch has been involved in the pipeline business for over 50 years and currently intends to remain in such business. Koch Industries will indirectly own a 48.8% Partnership Interest through the General Partner.

The General Partner may not be removed as general partner of the Partnership unless: (i) the General Partner has committed a material breach of the Partnership Agreement, which breach has subsisted for 60 days after notice, and such removal is also approved by the vote of the holders of at least 66⅔% of the outstanding Units excluding, for

this purpose, Units held by the General Partner and its affiliates; (ii) in the event that the General Partner and its affiliates at any time own less than 30% of the outstanding Class A Units, if such removal is approved by the holders of at least 50% of the outstanding Units voted at a meeting in person or by proxy, or by written consent of holders of at least 50% of the outstanding Units; or (iii) in the event that the shareholders or directors of the General Partner pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of the General Partner, or the General Partner commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the Partnership Agreement.

The General Partner may at any time and from time to time transfer Class B Units to any person, without the approval of Limited Partners, provided that if the General Partner will continue to be the general partner of the Partnership following such transfer, the General Partner may not transfer Class B Units if, after giving effect to such transfer, the Class B Units owned by the General Partner would represent less than 0.1% of the outstanding Units. Without limitation of the foregoing, the General Partner may transfer all, but not less than all, of its Class B Units in the Partnership without the approval of the Limited Partners: (i) to an affiliate of Koch; (ii) in connection with the General Partner's merger with or into another entity; or (iii) to the purchaser of all or substantially all of its assets, in all cases provided that such transferee assumes the rights and duties of the General Partner and agrees to be bound by the provisions of the Partnership Agreement. In the case of a transfer of all of the Class B Units by the General Partner (other than a permitted transfer to a successor general partner as set forth in the previous sentence), the approval of the holders of at least 66⅔% of the then outstanding Units is required.

### **Amendment of Partnership Agreement**

Amendments to the Partnership Agreement may be proposed only by the General Partner. The General Partner is required to seek written approval of the holders of the number of Units required to approve such amendments or call a meeting of the Partners to consider and vote upon the proposed amendment, except amendments which the General Partner may make without the approval of Partners, as described below. Proposed amendments (other than those described below) must be approved by holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units, except that no amendment may be made which would: (i) enlarge the obligations of the General Partner without its consent; (ii) restrict in any way any action by or rights of the General Partner as set forth in the Partnership Agreement, without its consent; (iii) modify the amounts distributable, reimbursable or otherwise payable by the Partnership to the General Partner or any of its affiliates, without its consent; (iv) reduce the term of the Partnership; (v) give any person the right to dissolve the Partnership other than the General Partner's right to dissolve the Partnership with the approval of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units; or (vi) modify the amendment provisions of the Partnership Agreement.

The General Partner may make amendments to the Partnership Agreement without the approval of any Partner to reflect: (i) a change in the name of the Partnership or the location of the principal place of business of the Partnership; (ii) the admission, substitution, withdrawal or removal of Limited Partners in accordance with the Partnership Agreement; (iii) a change that, in the sole discretion of the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a partnership in which the Limited Partners have limited liability; (iv) a change that, in the sole discretion of the General Partner, is reasonable, necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (v) a deletion from the definition of "Eligible Investor" of all references to a present or former direct or indirect shareholder of Koch Industries or an associate or affiliate of a present or former direct or indirect shareholder of Koch Industries; (vi) an increase in the frequency of distributions of Distributable Cash to more often than quarterly; and (vii) a change that, in the sole discretion of the General Partner, does not materially adversely affect the Limited Partners.

### **Meetings and Voting**

The General Partner does not anticipate that any meeting of Partners will be called in the foreseeable future. Any action that is required or permitted to be taken by the Partners may be taken either at a meeting of the Partners or without a meeting if consents in writing setting forth the action so taken are signed by holders of such number of Units as would be necessary to authorize or take such action at a meeting of the Partners. Meetings of the Partners

may be called by the General Partner or by Partners owning at least 10% of the outstanding Units. Partners may vote either in person or by proxy at meetings. Holders of 10% of the outstanding Units represented in person or by proxy will constitute a quorum at a meeting of Partners. Generally, matters submitted for a vote are to be determined by the affirmative vote, in person or by proxy, of holders of at least 66⅔% of the Units voted in person or by proxy in respect of the matter, or by written consent of holders of at least 66⅔% of the outstanding Units, in certain circumstances excluding Units held by the General Partner and its affiliates.

### **Indemnification**

The Partnership Agreement provides that the Partnership will, to the fullest extent permitted by law, indemnify the General Partner, any former general partner, each holder of Class B Units, any former holder of Class B Units (each, a “Departing Partner”), any person who is or was an affiliate of the General Partner or any Departing Partner, any person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such affiliate, or any person who is or was serving at the request of the General Partner or any Departing Partner or any such affiliate as an officer, director, employee, partner, agent or trustee of another person (“Indemnitees”) from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as the General Partner, a Departing Partner or affiliate of either or as an officer, director, employee, partner, agent or trustee of the General Partner, any Departing Partner or affiliate of either or a person serving at the request of the General Partner, any Departing Partner or any of their affiliates in another entity in a similar capacity, provided that in each case the Indemnitee acted in good faith and in a manner it reasonably believed to be in or not opposed to, the best interests of the Partnership and, in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the Indemnitee had no reasonable cause to believe its conduct was unlawful. The above indemnification may result in indemnification of Indemnitees for negligent acts. Any indemnification under these provisions will be only out of the assets of the Partnership. The Partnership is authorized to purchase (or to reimburse the General Partner or its affiliates for the cost of) insurance against liabilities asserted against and expenses incurred by such persons in connection with the Partnership’s activities, whether or not the Partnership would have the power to indemnify such person against such liabilities under the provisions described above.

### **Books and Reports**

The General Partner is required to keep appropriate records of the business at the principal office of the Partnership. The books of account will be maintained in accordance with Canadian generally accepted accounting principles, as amended from time to time. The fiscal year of the Partnership is the calendar year.

As soon as practicable, but in no event later than 140 days after the end of each fiscal year, the General Partner will furnish each Partner with audited financial statements of the Partnership for the past fiscal year, prepared in accordance with Canadian generally accepted accounting principles. As soon as practicable, but in no event later than 60 days after the end of each fiscal quarter (except the fourth quarter), the General Partner will furnish each Partner with unaudited interim financial statements.

The General Partner will use reasonable efforts to furnish each Partner information required for income tax reporting purposes within 90 days after the end of each year end of the Partnership for income tax purposes.

### **Right to Inspect Partnership Books and Records**

A Partner will generally have rights to information about the affairs of the Partnership which conform to the rights possessed by a shareholder of a corporation that is a “reporting issuer” under securities laws in Canada.

The Partnership Agreement provides that a Partner can for a purpose reasonably related to such Partner’s interest as a Partner, upon reasonable demand and at its own expense, have furnished to it: (i) a current list of the name and last known address of each Partner; (ii) copies of the Partnership Agreement, the certificate of limited partnership of the Partnership, and amendments thereto; and (iii) such other information regarding the affairs of the Partnership as is just and reasonable or as shall be provided to a Partner under applicable partnership legislation.

The General Partner may, and intends to, keep confidential from the Limited Partners, trade secrets or other information the disclosure of which the General Partner believes in good faith is not in the best interests of the Partnership or could damage the Partnership or which the Partnership is required by law or agreements with third parties to keep confidential.

### **Termination, Dissolution and Liquidation**

The Partnership will continue until December 31, 2037, unless sooner terminated pursuant to the Partnership Agreement. The Partnership will be dissolved upon: (i) the election of the General Partner to dissolve the Partnership, if approved by holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units; (ii) the sale, exchange or other disposition of all or substantially all of the assets of the Partnership, if approved by holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of at least 66⅔% of the outstanding Units; or (iii) withdrawal or removal of the General Partner or any other event that results in its ceasing to be the general partner of the Partnership (other than by reason of a withdrawal or removal following approval of a successor). Upon a dissolution pursuant to clause (iii) above, the holders of at least 66⅔% of the Units voted at a meeting in person or by proxy, or by written consent of holders of 66⅔% of the outstanding Units may also elect, within certain time limitations, to reconstitute the Partnership and continue its business on the same terms and conditions set forth in the Partnership Agreement by forming a new limited partnership on terms identical to those set forth in the Partnership Agreement and having as a general partner an entity approved by such holders, subject to receipt by the Partnership of an opinion of counsel that such reconstitution, continuation and approval will not result in the loss of limited liability of Limited Partners.

### **CASH DISTRIBUTION REINVESTMENT PLAN**

Subject to receipt of all required regulatory approvals, a Unit cash distribution reinvestment plan (the “Plan”) will be established on or prior to the date of closing for the Partnership to provide Unitholders with a method of reinvesting cash distributions into new Units.

The main features of the Plan will be as follows:

- (1) Units are purchased quarterly with reinvested cash distributions on the open market (including Units represented by Instalment Receipts until the final instalments are paid) at prevailing market prices or, at the option of the Partnership, from the Partnership at the weighted average trading price of the Units for the 20 trading days preceding the relevant cash distribution date;
- (2) Participants will receive statements detailing the number of additional Units acquired through reinvestment to assist their record-keeping; and
- (3) All administrative costs of the Plan are borne by the Partnership.

Once a Unitholder has enrolled in the Plan, his participation in the Plan continues automatically until terminated by the Unitholder or until the Plan is terminated by the Partnership at its sole option.

If the Units are issued directly by the Partnership, participating Unitholders will pay no service or brokerage charges in respect of additional Units acquired under the Plan and proceeds from the issuance of such additional Units will be added to working capital of the Partnership.

## CAPITALIZATION OF THE PARTNERSHIP

The following table sets forth the capitalization of the Partnership as at October 9, 1997 and as at such date after giving effect to this offering and the completion of the transactions contemplated by the Asset Purchase Agreement.

|                     | <u>Authorized</u> | <u>As at<br/>October 9, 1997</u> | <u>As at<br/>October 9, 1997<br/>after giving effect to<br/>the Offering and<br/>the Asset Transfer<br/>(unaudited)</u> |
|---------------------|-------------------|----------------------------------|---|
| Class A Units ..... | Unlimited         | \$ 10                            | \$353,312,500<br>(37,500,000 Units)   |
| Class B Units ..... | Unlimited         | \$ —                             | \$336,353,500<br>(35,700,000 Units)   |

### Credit Facility

On or before closing of the offering, the General Partner intends to arrange a \$50 million revolving credit facility with a Canadian chartered bank for use by the Partnership. The credit facility may be secured by a floating charge debenture granting security over all of the present and after acquired assets of the Partnership. It is anticipated that drawings may be made under the credit facility to fund fluctuations in working capital, for stabilizing distributions of Distributable Cash to Partners and to fund capital expenditures. Interest on borrowings under the credit facility will be at the prime rate of the bank.

### Borrowing Restrictions

Under the Partnership Agreement, the Partnership's aggregate principal amount of borrowings at any given time shall not exceed six times the Partnership's aggregate Distributable Cash for the preceding fiscal year. In respect of borrowings made by the Partnership in 1997 and 1998, Distributable Cash for the preceding fiscal year will be the amount of forecast Distributable Cash disclosed in the Partnership's Forecasted Statement of Income and Distributable Cash for the year ending December 31, 1998 contained herein.

## PIPELINE ASSETS DEVELOPMENT

### Operational Enhancements

An "Operational Enhancement" is an improvement to any pipeline system forming part of the Partnership Assets (a "System") that does not involve the construction of a pipeline Lateral (as herein defined), or an Extension (as herein defined) of a pipeline. Without limitation, an Operational Enhancement would involve improvements designed to (i) increase throughput capacity of the System by way of looping existing pipelines, constructing additional pumping facilities or both; (ii) segregate crude oil streams through the construction of, among other things, batch initiation facilities and additional pipelines; (iii) improve System integrity by means such as pigging and looping; and (iv) improve operational flexibility through the construction of additional storage tanks and injection valves. For these purposes: (i) "looping" is the construction of additional pipeline where each end of that additional pipeline connects to an existing System, the purpose of which is to increase the throughput capacity of the System; (ii) a "Lateral" is a new crude oil pipeline that gathers crude oil directly from local crude oil production sites and delivers it directly, or indirectly through existing gathering pipelines, to the System; and (iii) an "Extension" is a new crude oil mainline transmission pipeline that interconnects between Systems, connects to a facility other than a production site or provides for the infrastructure necessary to accommodate the introduction into the System of a new service or product other than crude oil.

The General Partner is authorized under the Partnership Agreement to maintain, improve, expand, extend or change the Pipeline Assets, and is therefore able to implement, among other things, Operational Enhancements. In the event that the General Partner determines to proceed with an Operational Enhancement, the General Partner will determine the manner of financing the Operational Enhancement, which may include one or a combination of the following: (i) usage of cash of the Partnership that would otherwise become Distributable Cash; (ii) borrowing by the Partnership upon such terms as the General Partner may determine, and assets of the Partnership may be pledged to secure such borrowing; and (iii) the issuance of additional Units.

## **Laterals or Extensions**

If the General Partner wishes to cause the Partnership to construct a Lateral, it must make a proposal (a “Proposal”) to the Board of Directors for construction of such Lateral. In order to make a Proposal, the General Partner will provide the Board of Directors with such information as may reasonably be required to enable the Proposal to be evaluated. In the event that the Board of Directors determines not to proceed with the Lateral contemplated by the Proposal, in the form proposed by the General Partner or with modifications as they may approve, neither the General Partner nor its affiliates may elect to proceed with such Lateral unless, at the time such Proposal is submitted to the Board of Directors for approval, a majority of the Board of Directors is comprised of Independent Directors. In the event that the General Partner or its affiliates decide to proceed with such Lateral, then the General Partner and/or its affiliate, as applicable, and the Partnership shall enter into agreements to provide for revenue and cost sharing, if applicable.

In the case of an Extension, the General Partner and its affiliates will be entitled to construct, own and operate the Extension without making a Proposal to the Partnership. In the event that the General Partner or its affiliates decide to proceed with an Extension on that basis, then the General Partner and/or its affiliate, as applicable, and the Partnership will enter into agreements to provide for revenue and cost sharing, if applicable.

## **CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITY**

Certain conflicts of interest could arise as a result of the relationships among Koch, the General Partner and the Partnership. The General Partner will make all decisions relating to the Partnership. The senior officers of the General Partner who make such decisions may also be officers of Koch. Neither the General Partner nor the Partnership currently has any employees, other than, in the case of the General Partner, certain senior officers who perform services for the General Partner on a part-time basis, and the General Partner will be dependent upon Koch for all management, operating and administrative services in respect of the Partnership’s business. In addition, Koch Industries indirectly owns all of the outstanding shares of the General Partner. The directors and officers of Koch have fiduciary duties to manage Koch, including its investments in its subsidiaries (including the General Partner), in a manner beneficial to Koch. In general, the General Partner has a fiduciary duty to manage the Partnership in a manner beneficial to the Unitholders. However, the Partnership Agreement contains provisions that allow the General Partner to take into account the interests of parties in addition to the Partnership in resolving conflicts of interest and provisions that may restrict the remedies available to Unitholders for actions taken that might otherwise constitute breaches of fiduciary duty. The duty of the directors and officers of the General Partner and Koch to those entities may therefore come into conflict with the duties of the General Partner to Unitholders.

Potential conflicts of interest could arise in the situations described below, among others:

- (a) The amount of cash expenditures, borrowings and reserves of the Partnership in any quarter may affect the amount of Distributable Cash available for distribution to Unitholders in that quarter. Borrowings and issuances of additional Units may increase the amount of cash available for distribution. The Partnership Agreement provides that any borrowings by the Partnership shall not constitute a breach of any duty by the General Partner to the Partnership or the Unitholders, including borrowings that have the effect, directly or indirectly, of enabling the General Partner to receive incentive fees or increased incentive fees.
- (b) Under the terms of the Partnership Agreement, the General Partner will exercise its discretion in managing the business of the Partnership and, as a result, the General Partner is not restricted from paying Koch for any services rendered on terms fair and reasonable to the Partnership, provided that any fees paid to Koch for services rendered to the General Partner or the Partnership pursuant to the Support Agreement may not exceed Koch’s costs of providing such services. See “The Partnership Agreement — Compensation and Reimbursement of General Partner”.
- (c) The amount of Distributable Cash may be affected by various determinations made by the General Partner under the Partnership Agreement (including, for example, those relating to the timing of any capital transaction, the establishment and maintenance of reserves, the timing of expenditures, the incurrence of debt and other matters).
- (d) Neither the Partnership Agreement nor any of the other agreements, contracts and arrangements between the Partnership, on the one hand, and the General Partner or Koch, on the other hand, were or

will be, the result of arm's length negotiations. As Koch is a customer of the Pipelines, these contracts include, and will in the future include, agreements relating to the transportation of crude oil on the Pipelines.

- (e) Counsel, accountants and others who will perform services for the Partnership in the future will be selected by the General Partner and may also perform services for the General Partner and Koch. The General Partner may retain separate counsel for the Partnership or the Unitholders after the completion of this offering, depending on the nature of a conflict which might arise in the future, but does not intend to do so in most cases.
- (f) Koch and the General Partner will be expressly permitted by the terms of the Partnership Agreement to engage in any business and activity, including in certain instances those in direct competition with the Partnership except as provided in the Non-Competition Agreement.
- (g) The Partnership will not have any employees and will rely solely on the General Partner. **The General Partner, Koch and their affiliates will conduct business of their own in which the Partnership will have no economic interest. There will be competition between the Partnership, on the one hand, and Koch, on the other hand, for the time and effort of employees who will provide services to the Partnership.** Officers of the General Partner will divide their time between the business of the Partnership and the business of Koch and will not be required to spend any specified percentage or amount of their time on the business of the Partnership.
- (h) Wherever possible, the General Partner intends to limit the liability under contractual arrangements of the Partnership to all or particular assets of the Partnership, with the other party thereto having no recourse against the General Partner or its assets other than its interest in the Partnership. In some circumstances, such action of the General Partner may result in the terms of the transaction being less favorable to the Partnership than would otherwise be the case. The Partnership Agreement provides that such action will not constitute a breach of the General Partner's fiduciary obligations.
- (i) The General Partner generally must act as a fiduciary to the Partnership and the Unitholders and therefore must generally consider the best interests of the Partnership and not the General Partner's interests when deciding whether to make capital or operating expenditures or take other steps with respect to the business of the Partnership. The Partnership Agreement, however, provides that it will not constitute a breach of the General Partner's fiduciary duty if Partnership borrowings are effected that, directly or indirectly, enable the General Partner to receive incentive fees or increased incentive fees or if Koch takes advantage of any opportunity in preference to the Partnership, except as specifically limited by the restrictions described herein.
- (j) The Partnership may become a party to agreements to which the General Partner or Koch are also parties and which may provide certain benefits to the Partnership. However, these agreements will not grant to Unitholders, separate and apart from the Partnership, the right to enforce the obligations of the General Partner or Koch in favour of the Partnership. Therefore, the General Partner will be primarily responsible for enforcing such obligations, including obligations which it may owe to the Partnership.

### **Restrictions on Activity of General Partner and its Affiliates**

The General Partner has agreed in the Non-Competition Agreement that so long as the General Partner is a subsidiary of Koch Industries, neither the General Partner nor its affiliates (including Koch) will engage in or acquire any business that is in direct material competition with the business of the Partnership (as defined in the Non-Competition Agreement). The scope of this competition restriction is limited to crude oil pipelines utilizing the same real property rights-of-way as are utilized by the Partnership in connection with the Pipeline Assets, and any additional assets acquired by the Partnership. This competition restriction does not apply where the use of the Partnership's rights-of-way is of limited distance and is not significant to the operation or construction of the competing pipeline having regard to the overall length of the competing pipeline. This competition restriction is also subject to the following important exceptions:

- (a) Koch may acquire any competitive business as part of a larger acquisition provided that the majority of the value of the business or assets acquired, in Koch's judgment, is not attributable to such competitive business.

- (b) Koch may acquire any competitive business as part of a larger acquisition where the majority of the value of the business or assets acquired is attributable to the competitive business. In this situation, Koch may, but need not, offer the competitive business to the Partnership. If the competitive business is offered to the Partnership, then the Independent Directors must determine whether to approve the acquisition on behalf of the Partnership. If the Independent Directors make such determination, then the parties shall thereafter negotiate the terms of sale, including the purchase price. If the Independent Directors decline to approve the acquisition, then Koch may retain or dispose of the competitive business. If the competitive business is not offered to the Partnership, then Koch must dispose of the competitive business and such disposition must occur within a period of one year after its acquisition.
- (c) Koch may acquire or develop any competitive business if the same is first offered for acquisition to the Partnership and the Independent Directors decline to approve the making of such acquisition or development.

Except as specified above, neither the General Partner nor Koch is restricted by the terms of the Non-Competition Agreement or the Partnership Agreement from engaging in any business which may be in competition with the Partnership. In addition, the Partnership Agreement provides that it will not constitute a breach of the General Partner's fiduciary duty for the General Partner or Koch to take advantage of any opportunity in preference to the Partnership, except as specifically limited by the restrictions described above. The obligations of the General Partner in the Non-Competition Agreement cease to apply when the General Partner is no longer a subsidiary of Koch.

The Non-Competition Agreement also requires that the General Partner make a proposal (a "Proposal") to the Independent Directors if the General Partner or its affiliates intend to develop, construct, acquire and/or operate a crude oil pipeline that gathers crude oil in competition with the Bow River Pipeline System directly from local production sites along the corridor from Hays to Hardisty within an area of approximately 9,432 square miles surrounding the Bow River main line between Hays and Hardisty, Alberta and including all principal laterals connecting to the Bow River main line. In the Proposal, the General Partner must provide certain information, including constructions particulars and estimated costs of construction. The General Partner or its affiliates may only construct the line if the Independent Directors determine that the Partnership should not do so.

### **Fiduciary Responsibility of the General Partner**

The General Partner is generally accountable to the Partnership and to the Unitholders as a fiduciary. Consequently, the General Partner must exercise good faith and integrity in administering the assets and affairs of the Partnership. In contrast to the relatively well developed state of the law concerning fiduciary duties owed by the officers and directors to a corporation, the law concerning the duties owed by general partners to the other partners and to the partnership is relatively undeveloped. In order to induce the General Partner to manage the business of the Partnership, the Partnership Agreement contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner and its agents or assigns to the Partnership and the Unitholders and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties.

The Partnership Agreement provides that whenever a conflict of interest arises between the General Partner or its affiliates, on the one hand, and the Partnership or any Unitholders, on the other hand, the General Partner will, in resolving such conflict or determining such action, consider the relative interests of all parties involved in such conflict or affected by such action, any customary or accepted industry practices, if applicable, generally accepted accounting practices or principles and such additional factors as the General Partner determines to be relevant, reasonable or appropriate in the circumstances. The same considerations will apply whenever the Partnership Agreement requires the General Partner to act in a manner that is fair and reasonable to the Partnership or the Unitholders. **Thus, unlike the strict duty of a trustee who must act solely in the best interests of its beneficiary, the Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of Koch Industries as the indirect shareholder of the General Partner. The Partnership Agreement also provides that in certain circumstances the General Partner will act in its sole discretion, in good faith or pursuant to other appropriate standards.**

The Partnership Agreement also provides that any standard of care and duty imposed thereby or any applicable law, rule or regulation will be modified, waived or limited as required to permit the General Partner to act under the

Partnership Agreement or any other agreement contemplated therein and to make any decision pursuant to the authority prescribed in the Partnership Agreement so long as such action is reasonably believed by the General Partner to be in, or not opposed to, the best interests of the Partnership. Further, the Partnership Agreement provides that the General Partner will not be liable for monetary damages or otherwise to the Partnership, the Unitholders or assignees for errors of judgment or for any acts or omissions if the General Partner acted in good faith. The Partnership is required, under the terms of the Partnership Agreement, to indemnify the General Partner and its officers, directors, employees and agents against liabilities, costs and expenses, if the General Partner or such persons acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful. This indemnification provision could include indemnification of the General Partner for its negligent acts. See "The Partnership Agreement — Indemnification".

**The fiduciary obligations of general partners is a developing area of the law. The General Partner has not obtained an opinion of counsel covering the restrictions set forth in the Partnership Agreement which purport to waive or restrict fiduciary duties of the General Partner. Unitholders should consult their own legal counsel concerning the fiduciary responsibilities of the General Partner and the remedies available to a holder of Class A Units.**

## USE OF PROCEEDS

The net proceeds to the Partnership from the initial instalments on the Class A Units are estimated to be approximately \$203.3 million, after deducting the fees payable to the Underwriters and the expenses of issue estimated to be approximately \$21.7 million due on closing. The net proceeds will be used by the Partnership to pay part of the cash portion of the purchase price of the Pipeline Assets pursuant to the Asset Purchase Agreement, being approximately \$203.3 million. The net proceeds of \$150.0 million from the final instalments on the Class A Units will be paid by the Partnership to the General Partner in satisfaction of the deferred portion of the purchase price for the Pipeline Assets. The remainder of the transfer price for the Pipeline Assets will be satisfied by the Partnership by the issue of 35,700,000 Class B Units to the General Partner. See "The Partnership — Acquisition of the Pipeline Assets".

## DETAILS OF THE OFFERING

The offering consists of 37,500,000 Class A Units at a price of \$10.00 per Class A Unit which are being sold on an instalment basis. Prior to receipt by the Custodian (as defined below) of the final instalments, beneficial ownership of the Class A Units will be represented by Instalment Receipts and the Class A Units will be pledged by the Underwriters to the Partnership pursuant to the terms of the Instalment Receipt Agreement (described below). Upon due payment of the final instalments pursuant to the Instalment Receipt Agreement, registered holders of Instalment Receipts will become registered holders of the Class A Units.

### Instalment Receipts

The following is a summary of the material attributes and characteristics of the Instalment Receipts and the rights and obligations of registered holders thereof. The Instalment Receipts will be created and issued, and the Class A Units pledged to the Partnership will be held by the Security Agent, pursuant to the instalment receipt and pledge agreement (the "Instalment Receipt Agreement") to be dated as of the date of closing of this offering among the Partnership, the Underwriters, The Trust Company of Bank of Montreal (the "Custodian") and another party (the "Security Agent") which will hold the Class A Units pledged to the Partnership. This summary does not purport to be a complete summary of, and reference is made to, the Instalment Receipt Agreement. For the purposes of this description of the material attributes and characteristics of the Instalment Receipts, a "holder" means a person who is shown on the register of holders of Instalment Receipts maintained under the Instalment Receipt Agreement. Copies of the Instalment Receipt Agreement will be available for inspection (in draft form prior to closing) at the principal stock and bond transfer offices of the Custodian in Calgary and Toronto.

The initial instalment of \$6.00 per Class A Unit is payable on the closing of this offering which is expected to occur on or about November 27, 1997 (but not later than December 31, 1997) and the final instalment of \$4.00 per Class A Unit is payable on or before November 27, 1998 (the "Final Instalment Date"). The final instalment

payment must be received by the Custodian no later than 5:00 p.m. (local time) on the Final Instalment Date. The Instalment Receipt certificates will be available for delivery at closing.

Holders of Instalment Receipts will be bound by the terms of the Instalment Receipt Agreement. The Instalment Receipt Agreement will provide that legal title to the Class A Units offered hereby will be held by the Security Agent following payment of the initial instalments pursuant to the Underwriting Agreement (described under "Plan of Distribution") and until the final instalments have been fully paid to the Custodian on or before the Final Instalment Date. The Class A Units offered hereby will be pledged to the Partnership by the Underwriters at closing and will be held in the possession of the Security Agent subject to the terms of the Instalment Receipt Agreement. By acquiring and holding an Instalment Receipt, the holder thereof acknowledges that the Class A Units represented thereby will be held as continuing security for the obligations of such holder to pay the unpaid final instalment and other amounts payable under the Instalment Receipt Agreement and that the pledge will remain in effect and be binding and effective notwithstanding any transfer of or other dealings with the Instalment Receipt and the rights evidenced or arising thereby. The Partnership will secure its obligation to pay the deferred portion of the purchase price for the Pipeline Assets by an assignment to the General Partner of its entitlement to the final instalments under the Instalment Receipts and its rights and entitlements under the pledge of the Class A Units to the Partnership.

Following payment of the initial instalment, beneficial ownership of the Class A Units will be represented by Instalment Receipts. The Instalment Receipt certificates will be available for delivery at closing.

An Instalment Receipt will, among other things, evidence that the initial instalment has been paid in respect of the number of Class A Units specified therein and the right of the holder thereof, subject to compliance with the provisions of the Instalment Receipt Agreement, to become the registered holder of such Class A Units upon payment in full of the final instalment with respect to such Class A Units.

By becoming a holder of an Instalment Receipt, a person will be deemed: (a) to have assumed the obligation to pay the final instalment and to thereupon become entitled to receive a certificate representing the Class A Units represented by such Instalment Receipt; and (b) to beneficially own the Class A Units represented by the Instalment Receipt, subject to the pledge of such Class A Units to the Partnership which secures such obligation.

The Instalment Receipt Agreement will require the Custodian to mail to the holders of Instalment Receipts, as determined on a date being not more than 14 days before the date of mailing, a notice of the Final Instalment Date and the amount of the final instalment not less than 30 days prior to the Final Instalment Date. Payment of the final instalment is required when due whether or not a holder of Instalment Receipts receives a notice of the Final Instalment Date from the Custodian. Subject to compliance with the provisions of the Instalment Receipt Agreement, as soon as practicable after timely payment of the final instalment and presentation and surrender of the relevant Instalment Receipt certificate, the Class A Units represented thereby will be registered in the name of the holder of the Instalment Receipt without additional charge.

A holder of an Instalment Receipt will be entitled to make payment, in accordance with the provisions of the Instalment Receipt Agreement, of the final instalment at any time prior to the Final Instalment Date and thereby become the registered holder of such Class A Units.

### **Rights and Privileges**

Under the Instalment Receipt Agreement, holders of Instalment Receipts will have the same rights and privileges, and will be subject to the same limitations, as registered holders of Class A Units, except for certain rights and privileges, described below, which are limited under the Instalment Receipt Agreement in order to protect the value of the collateral secured by the pledge to the Partnership of the Class A Units represented by the Instalment Receipts or except where the exercise of such rights and privileges would not be practicable. In particular, a holder of Instalment Receipts will be entitled under arrangements through the Custodian, in the manner set forth in the Instalment Receipt Agreement, unless the holder has defaulted on its obligations thereunder, to participate fully in all distributions in respect of the Class A Units represented by such Instalment Receipts, to exercise the votes attached to the Class A Units represented by such Instalment Receipts, and to receive periodic reports and other materials in like manner as if it were the registered holder of the Class A Units.

In particular, the Instalment Receipt Agreement will provide that distributions on Class A Units which are declared to be payable in cash (other than Excess Distributions, as defined below) to Unitholders of record on or

before November 27, 1998 will be remitted, net of any applicable withholding taxes, to persons who, on the applicable distribution record date in respect of such Class A Units, are holders of the Instalment Receipts representing such Class A Units. "Excess Distributions" means the amount, if any, by which, in the 12 month period ending November 27, 1998, the aggregate of all cash distributions paid in respect of the Class A Units exceeds \$1.50 per Unit.

The Instalment Receipt Agreement will also provide that issues or distributions of Rights (as defined below) to all or substantially all of the holders of Class A Units to acquire further Class A Units will be remitted to persons who, on the applicable distribution record date in respect of such rights, are holders of the Instalment Receipts representing such Class A Units. "Rights" means options, rights and warrants exercisable for a period not exceeding 45 days at an exercise price of not less than 90% of the Market Value of the Class A Units. "Market Value" means the weighted average trading price of the Class A Units on The Toronto Stock Exchange for the 20 trading days ending on the record date for the distribution of the rights. Distributions in respect of Class A Units paid in additional Class A Units will be registered in the name of the Security Agent and will be held by the Security Agent as security for the performance of the obligations of the holders of Instalment Receipts to pay the final instalment, and upon payment of the final instalments shall be distributed to the holders according to their entitlement. The Partnership will covenant in the Instalment Receipt Agreement that until November 27, 1998, the Partnership will not:

- (a) distribute Excess Distributions;
- (b) issue or distribute to all, or substantially all, of the holders of Class A Units, any: (i) securities; (ii) options, rights or warrants to purchase any securities; (iii) securities convertible into or exchangeable for securities, property or other assets; (iv) evidence of indebtedness; or (v) any property or assets (other than cash distributions and distributions of additional Class A Units), whether of the Partnership or of any other person; or
- (c) subdivide, consolidate, reclassify or make any other change in the Class A Units or effect any reorganization, arrangement, merger, transfer or sale of all, or substantially all, of its assets, or any other similar transaction affecting the Partnership or its Class A Units.

### **Transfer of Instalment Receipts**

Transfers of Instalment Receipts will be registrable at the principal offices of the Custodian in Calgary and Toronto. Upon registration of the transfer of an Instalment Receipt, the transferee will acquire the transferor's rights, subject to the pledge in favour of the Partnership, and become subject to the obligations of a holder of Instalment Receipts under the Instalment Receipt Agreement, including the assumption by the transferee of the obligation to pay the final instalment. The person requesting registration of the transfer of an Instalment Receipt is deemed to warrant such person's authority to do so as or on behalf of the transferee. Upon registration of such transfer, the transferor will cease to have any further rights or obligations thereunder (other than certain obligations specified in the Instalment Receipt Agreement). No transfer of an Instalment Receipt tendered for registration after the Final Instalment Date will be accepted for registration (subject to certain exceptions applicable to intermediaries holding Instalment Receipts on behalf of non-registered holders).

### **Liability of Instalment Receipt Holders**

Pursuant to the Instalment Receipt Agreement, the Underwriters will pledge the Class A Units purchased on an instalment basis to secure payment of the final instalment. If payment of the final instalment is not duly received by the Custodian from a holder of Instalment Receipts when due, the Instalment Receipt Agreement will provide that (except as set out below) any Class A Units (and any securities or property substituted therefor or in addition thereto) then remaining pledged under the Instalment Receipt Agreement in respect of such Instalment Receipts, may, at the option of the Partnership, or any assignee thereof, subject to complying with applicable law, be acquired by the Partnership in full satisfaction of the obligations of such holder of Instalment Receipts secured thereby. The Instalment Receipt Agreement will further provide that the Partnership may direct the Custodian to sell the Class A Units (and any securities or property substituted therefor or in addition thereto) in respect of which payment of the final instalment was not duly received, in accordance with the requirements of applicable law and the Instalment Receipt Agreement, and remit to the holder of the Instalment Receipt the holder's pro rata portion of the proceeds of such sale after deducting therefrom the amount of the unpaid final instalment together with the holder's pro rata

portion of the costs of such sale, which costs shall in any event not exceed \$1.00 per Unit. Notwithstanding the foregoing, in the event that payment of the final instalment in respect of an aggregate of less than 5% of the Class A Units represented by Instalment Receipts has not been duly received by the Custodian when due, the Custodian must sell the Class A Units (and any securities or property substituted therefor or in addition thereto) in respect of which payment of the final instalment was not duly received and apply the proceeds of such sale in the manner described above. **The Instalment Receipt Agreement will provide that unless the Partnership, or any assignee thereof, shall have acquired the Class A Units (and any securities or property substituted therefor or in addition thereto) in full satisfaction of the obligations of a holder of Instalment Receipts, the foregoing shall not limit any other remedies available to the Partnership, or any assignee thereof, against such holder in the event the proceeds of such sale are insufficient to cover the amount of the final instalment and the costs of sale (such costs of sale not to exceed \$1.00 per Unit) and accordingly, such holder shall in such circumstances remain liable to the Partnership or any assignee thereof, for any such deficiency.**

### **General Information Regarding the Instalment Receipts**

The Custodian may require holders of Instalment Receipts from time to time to furnish such information and documents as may be necessary or appropriate to comply with any fiscal or other laws or regulations, relating to the Class A Units or to the rights and obligations represented by Instalment Receipts. The Custodian and the Security Agent shall not be responsible for any taxes, duties, governmental charges or expenses which are or may become payable in respect of the Class A Units or Instalment Receipts. In this regard, the Custodian and the Security Agent shall be entitled to deduct or withhold from any payment or other distribution required or contemplated by the Instalment Receipt Agreement such money or property, or to require holders of Instalment Receipts to make any required payments, and to withhold delivery of certificates representing the Class A Units from defaulting holders until satisfactory provision for payment is made, in respect of any taxes, duties or other governmental charges or expenses required by applicable law to be withheld or paid.

The Partnership will be liable for charges and expenses of the Custodian and the Security Agent except for any taxes, duties and other governmental charges which may be payable by holders of Instalment Receipts as described above.

Apart from changes which do not materially prejudice the holders of Instalment Receipts as a group (which may be made without the consent of such holders), the Instalment Receipt Agreement may not be amended without the affirmative vote of the holders entitled to not less than 66 $\frac{2}{3}$ % of the Class A Units represented by Instalment Receipts which are represented and voted at a meeting duly called for the purpose. The procedure for such meetings will be substantially similar to that governing meetings of the holders of the Class A Units.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Burnet, Duckworth & Palmer, counsel for the Partnership, and Milner Fenerty, counsel for the Underwriters, the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a Limited Partner who acquires Class A Units evidenced by Instalment Receipts pursuant to this offering and who for purposes of the Tax Act, is resident in Canada, holds the Class A Units as capital property and deals at arm's length with Koch and the Underwriters. Generally, the Class A Units will be considered to be capital property to a Limited Partner provided the Limited Partner does not hold the Class A Units in the course of carrying on a business and has not acquired the Class A Units in one or more transactions considered to be an adventure in the nature of trade. This summary assumes that Class A Units are not a "tax shelter", that no Limited Partner will itself constitute a "tax shelter" and is not applicable to a Limited Partner that is a "specified financial institution" as defined in the Tax Act, and any such Limited Partner should obtain independent advice with respect to an investment in the Class A Units.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof (the "Proposed Amendments") and counsel's understanding of the current published administrative and assessing policies of Revenue Canada, Customs, Excise and Taxation.

This summary is not exhaustive of all possible Canadian federal income tax considerations, and, except for the Proposed Amendments, does not take into account or anticipate any changes in law, whether by way of legislative,

governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which might differ significantly from those discussed herein.

**This summary is of a general nature only and is not intended to be legal or tax advice to any particular Unitholder. Consequently, prospective Unitholders should consult their own tax advisors with respect to their particular circumstances.**

## **Taxation of Limited Partners**

### ***Computation of Income or Loss***

The Partnership is not itself liable for income tax, however, the income or loss of the Partnership is computed for each of its fiscal periods as if it were a separate person resident in Canada. The Partnership's fiscal year end is December 31.

In computing its net income or loss for tax purposes, the Partnership will be entitled to deduct its expenses in the year in which they were incurred provided such expenses are reasonable and are permitted by applicable tax laws. In addition, the Partnership will be entitled to deduct certain capital costs including a carryover capital cost allowance in respect of the Pipeline Assets acquired and the portion of the offering expenses incurred by the Partnership. Generally speaking, capital cost allowance is a prescribed percentage of the undepreciated capital cost ("UCC") of the class to which the asset belongs, and is generally computed annually on a declining balance basis. For the purpose of computing its UCC, the cost to the Partnership of the Pipeline Assets will exclude the portion of the purchase price paid in Class B Units. For offering expenses, 20% of the total offering expenses which were not otherwise deductible in a preceding year are deductible by the Partnership in proportion to the number of days in the Partnership's taxation year. To the extent the Partnership disposes of any portion of its Pipeline Assets, the Partnership's proceeds, up to original cost, will be deducted from the UCC of the particular class. Any negative balance in the Partnership's UCC at the end of a fiscal period will be included in income. Any proceeds received in excess of cost will generally be included in income as a capital gain, three quarters of which is taxable.

Each Limited Partner will be required to include or will be entitled to deduct, in computing income, a pro rata share of the income or loss (including the taxable portion of any capital gains) for tax purposes of the Partnership allocated to the Limited Partner pursuant to the Partnership Agreement for the fiscal period of the Partnership ending in such Limited Partner's taxation year, subject to the application of the "at-risk" rules referred to below, whether or not a distribution is made in cash to such Limited Partner by the Partnership.

The General Partner, as the holder of Class B Units, will be treated in the same manner as Limited Partners with respect to the allocation of income or loss for tax purposes of the Partnership with such income or loss being allocated to each Partner (including the General Partner) based on the proportion of cash distributions for that year received by the Partner.

The allocation to the Limited Partner will be based upon the pro rata share of the income or loss for tax purposes of the Partnership for a given fiscal year. A person who is a Limited Partner for only a portion of a Partnership fiscal year will receive a corresponding share of Partnership income or loss for that year, based upon the proportion of cash distributions for that year received by such Limited Partner.

The amount of income allocated to a Limited Partner may exceed or be less than the amount of cash distributed to such Limited Partner.

Income or loss of the Partnership from a particular source and a particular place will be considered to be income of a Limited Partner from the same source and place to the extent of the Limited Partner's share thereof. As a consequence, a Limited Partner will become liable for income tax in all provinces in which the Partnership has a permanent establishment. It should be noted that, the income for tax purposes allocated to a Limited Partner is not considered "earned income" for purposes of calculating the amount a Limited Partner may contribute to a registered retirement savings plan. A Limited Partners share of Partnership capital gains will retain their character as capital gains.

Should the Partnership realize a loss each Limited Partner who held this Partnership Interest on December 31 will be entitled to deduct in the computation of income for tax purposes the Limited Partner's pro rata share of the Partnership's loss for tax purposes of the Partnership for its fiscal year to the extent that the Limited Partner's investment is "at risk" within the meaning of the Tax Act. In general, the amount "at risk" for an investor in a limited partnership for any taxation year is the adjusted cost base of the investor's partnership interest at the end of

the year, plus any undistributed income allocated to the investor for the year, less any amount owing by the investor (or a person with whom the investor does not deal at arm's length) to the Partnership (or a person with whom it does not deal at arm's length) and less the amount of any guarantee or indemnity provided to an investor against the loss of the investor's investment.

Where a Limited Partner acquires Class A Units from a person (the "transferor") other than the Partnership, the cost to the Limited Partner for purposes of determining the Limited Partner's "at-risk" amount under the Tax Act is the lesser of the Limited Partner's cost of the Class A Units and the transferor's adjusted cost base of the Class A Units immediately before that time. Where the adjusted cost base of the transferor cannot be determined, the initial "at-risk" amount of the Limited Partner will generally be nil.

Subject to the "at-risk" rules discussed above, a Limited Partner's pro rata share of any losses of the Partnership for any fiscal year may be applied against income from any other source to reduce such of the income for that year and, to the extent it exceeds other income for that year, carried back three years and forward seven years against taxable income of such other years.

A Limited Partner's share of any losses of the Partnership denied as a consequence of the application of the "at-risk" rules is considered to be a "limited partnership loss" in respect of the Partnership for the year. Such limited partnership loss may be deducted by the Limited Partner in any subsequent year against any income for that year to the extent that, at the end of the last fiscal year of the Partnership ending in that year, the Limited Partner's "at-risk" amount in respect of the Partnership exceeds the Limited Partner's share of any loss of the Partnership from a business or property for that fiscal year.

### ***Disposition of Class A Units***

The disposition by a Limited Partner of a Class A Unit will result in the realization of a capital gain (or capital loss) by such Unitholder. The amount of such capital gain (or capital loss) will generally be the amount, if any, by which the proceeds of disposition of such Unit (including any unpaid instalment), less costs of disposition, exceed (or are exceeded by) the adjusted cost base of such Class A Unit.

In general, the adjusted cost base of a Limited Partner's Class A Unit will be equal to the actual cost of the Class A Unit (including any unpaid instalment) plus the pro rata share of the income of the Partnership allocated to the Limited Partner for the fiscal years ending before the relevant time less the aggregate of the pro rata share of losses of the Partnership allocated to the Limited Partner (other than losses which cannot be deducted because they exceed the Limited Partner's "at-risk" amount) for the fiscal years ending before the relevant time and the Limited Partner's pro rata share of any distributions by the Partnership. Where a Limited Partner holds Class A Units that are capital property, the adjusted cost base of each Class A Unit will be the average of the aggregate cost base of all Class A Units held.

Where a Limited Partner disposes of all of the Limited Partner's Class A Units such person will no longer be a Limited Partner of the Partnership.

A Limited Partner will realize a deemed capital gain if the adjusted cost base of the Limited Partner's Class A Units is negative at the end of any fiscal period of the Partnership. If the adjusted cost base of a Limited Partner's Class A Units becomes negative and a capital gain is realized, the adjusted cost base of the Limited Partner's Class A Units will be nil at the beginning of the next fiscal period of the Partnership.

Three-quarters of a capital gain realized must be included in a taxpayer's income as a taxable capital gain. Three-quarters of a capital loss will be deductible as an allowable capital loss against taxable capital gains realized in the year, in any of the three years preceding the year or any year following the year to the extent and under the circumstances described in the Tax Act.

### ***Failure to Make Second Instalment***

A failure on the part of a Limited Partner to make the final instalment will result in the disposition of the holders' Class A Units, with consequences as generally described above. In addition, detailed provisions of the Tax Act governing acquisition of property as a consequence of the non-payment of debt, and the settlement of debt for less than its principal amount, may have application and Limited Partners are urged to consult their own tax advisors.

### ***Dissolution of the Partnership***

On the dissolution of the Partnership, a Limited Partner will generally be considered to have disposed of the Limited Partner's Class A Units for proceeds of disposition equal to the fair market value of the property received or receivable by the Limited Partner on such dissolution, and the Partnership will be deemed to have disposed of, and the Limited Partner will be deemed to have acquired, such property at its fair market value.

### ***Filing Requirements***

A member of the Partnership at any time in a fiscal period of the Partnership is required to make an information return in prescribed form containing specified information for that period, including the income or loss of the Partnership and the names and shares of such income or loss of all the Partners. The filing of an annual information return by the General Partner on behalf of the Limited Partners will satisfy this requirement and the General Partner has agreed to make such filings. The General Partner will also provide Limited Partners with information relevant to the allocation of the Partnership's income earned in the provinces in which it has a permanent establishment.

### ***Eligibility for Investment***

On and after the listing of the Class A Units on a prescribed stock exchange, the Class A Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. **However, Class A Units will constitute foreign property under the Tax Act for such plans. Any plan which holds more than the prescribed amount of foreign property will be subject to tax under Part XI of the Tax Act.**

## **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Partnership has agreed to issue and sell the Class A Units and RBC Dominion Securities Inc., as lead underwriter, ScotiaMcLeod Inc., Nesbitt Burns Inc., CIBC Wood Gundy Securities Inc., Midland Walwyn Capital Inc., Goldman Sachs Canada, Lévesque Beaubien Geoffrion Inc., TD Securities Inc., Gordon Capital Corporation and Newcrest Capital Inc. (collectively, the "Underwriters"), have severally agreed to purchase on November 27, 1997, or such other date as may be agreed but not later than December 31, 1997 (the "Closing Date"), subject to the terms and conditions stated therein, all of the Class A Units offered hereby at a price of \$10.00 per Class A Unit for an aggregate purchase price of \$375,000,000. The \$10.00 per Unit is payable in instalments consisting of an initial instalment of \$6.00 per Unit payable to the Partnership by the Underwriters against delivery of the Units and a final instalment of \$4.00 per Unit payable on or before November 27, 1998 by the registered holders of the Instalment Receipts. The Units will be pledged to the Partnership by the Underwriters at closing and will be held in possession of the Security Agent subject to the terms of the Instalment Receipt Agreement. See "Details of the Offering". In consideration for their services in connection with this offering, the Underwriters will be paid a fee of \$0.525 per Class A Unit by the Partnership. The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated in their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all such Class A Units if any such Class A Units are purchased under the Underwriting Agreement.

Prior to this offering, there was no market through which the Class A Units could be sold. Accordingly, the offering price for the Class A Units was determined by negotiation among the General Partner, Koch Industries and the Underwriters.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Class A Units. The foregoing restriction is subject to certain exceptions as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange, the Montreal Exchange, The Alberta Stock Exchange and the Vancouver Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. In connection with this offering, and subject to the foregoing, the Underwriters may effect transactions which stabilize or maintain the market price of

the Class A Units at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Underwriting Agreement provides that the Partnership may not, until 180 days after the closing of this offering, issue any Units or any securities exchangeable or convertible into Units, or announce an intention to do so without the prior written consent, not to be unreasonably withheld, of the Underwriters. In addition, the General Partner has agreed with the Underwriters that the General Partner and its affiliates will not, without the prior written consent, not to be unreasonably withheld, of the Underwriters or until 365 days after the closing of this offering, sell or otherwise transfer any Units or any securities exchangeable or convertible into Units, or announce an intention to do so.

The Partnership, the General Partner and Koch Industries have agreed in the Underwriting Agreement to indemnify the Underwriters and their controlling persons, directors, officers and employees against certain liabilities.

## INDUSTRY REGULATION

The Bow River, Koch Alberta and Koch Valley Pipeline Systems are wholly within the boundaries of the Province of Alberta and are subject to regulation by the Alberta Energy and Utilities Board (the "AEUB"). The Mid-Saskatchewan Pipeline System is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipeline Act* (Saskatchewan) and the *Oil and Gas Conservation Act* (Saskatchewan) and by the Saskatchewan Oil and Gas Conservation Board. None of the Pipelines are subject to regulation by the National Energy Board.

Oil pipelines in Alberta may be subject to rate regulation by the AEUB under the *Public Utilities Board Act* (Alberta). See "Risk Factors — Regulatory Intervention". In Saskatchewan, oil pipelines are not subject to any specific rate regulation legislation.

No rate regulation orders have been made against any of the Pipelines. Tolls charged on these systems are set by negotiations between the parties.

## RISK FACTORS

**Before making an investment decision, prospective purchasers of the Class A Units should consider carefully the information herein and, in particular, the following risk factors.**

### Fluctuating Distributions

Distributions by the Partnership will fluctuate. Although the Partnership will distribute Distributable Cash, there can be no assurance regarding the amounts thereof. The actual amount thereof will depend upon numerous factors including operating cash flow, general and administrative costs, debt service costs, capital expenditures and cash reserves established by the General Partner. The General Partner has broad discretion in establishing, maintaining and decreasing cash reserves, and its decisions regarding reserves could have a significant impact on the amount of Distributable Cash. The amount of cash distributed may be less than or greater than the amount of income allocated to Limited Partners for tax purposes.

### Throughput Risks

#### *Demand Risks*

Over the long term, the business of the Partnership will depend, in part, on the level of demand for crude oil in the geographic areas in which deliveries are made by the Pipeline Assets and the ability and willingness of shippers having access or rights to utilize the Pipeline Assets to supply such demand. The Partnership cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for crude oil.

#### *Supply Risks*

Future throughput on the Pipelines and replacement of crude oil reserves in their service areas will be dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Reserve bases necessary to maintain long term supply cannot be

assured and crude oil price declines, without compensating reductions in costs of production, may reduce or eliminate the profitability of production and the supply of crude oil for the Pipelines. Sustained low crude oil prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of marginal wells. The Partnership will be dependent on continuing crude oil exploration and development activity and technological improvements leading to increased recovery rates in order to offset natural declines in crude oil production in the areas served by the Pipelines. Absent such developments, the volumes of crude oil transported through the Pipelines will decline over time as reserves are depleted.

The majority of the toll revenue from the Pipeline Assets has been and will continue to be derived from contracts or arrangements of 30 days duration or less with producers in the geographic areas served by the Pipelines. In order to maintain or increase its volumes of crude oil transported, the Partnership must continually contract for new supplies of crude oil in amounts sufficient to offset volumes lost because of natural declines in crude oil production from depleting wells or volumes lost to competitors. There can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon favorable terms to the Partnership. The Partnership's supply contracts are based on market-based toll structures negotiated from time to time with individual producers rather than the cost of service recovery-fixed rate of return structures applicable to some other pipelines. The Pipelines are and will continue to be subject to market competitive factors.

### **Environmental Costs and Liabilities**

The operation of the Partnership will be subject to Canadian federal, Alberta and Saskatchewan laws and regulations relating to environmental protection and Canadian federal, Alberta and Saskatchewan provincial laws and regulations relating to operational safety. Pursuant to the Asset Purchase Agreement, the Partnership will assume all environmental obligations associated with environmental matters. Operation of the Pipeline Assets has spanned several decades. While the remediation of releases or contamination during such time period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which the Partnership may be liable. See "Other Matters Relating to the Pipeline Assets — Pipeline Integrity and Environmental Matters." Koch implemented an internal environmental review program in 1994. Sites have been ranked for detailed review under this program but have not yet been reviewed. Subsequent detailed site assessments may reveal deficiencies for which the Partnership may be liable.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the Partnership's operations, could result in substantial costs and liabilities to the Partnership. If the Partnership was not able to recover such resulting costs through insurance or increased tolls, distributions to Unitholders could be adversely affected.

While the Partnership will maintain insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered within fixed time periods, which typically range from 72 hours to seven days. If the Partnership is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

### **Competition**

The Pipelines are subject to competition for volumes transported from trucking or other pipelines near the areas serviced by the Pipelines. Competing pipelines could be constructed in areas served by the Pipelines.

### **Regulatory Intervention**

Legislation in Alberta exists to ensure that shippers and producers have fair and reasonable opportunities to produce, transport, process and market their reserves. The AEUB may, on application, and following a hearing (and with the approval of the Lieutenant Governor in Council), declare the proprietor of a pipeline to be a common carrier of oil such that the proprietor must not discriminate among shippers and producers who seek access to the pipeline. Following the issuance of a common carrier declaration, a shipper or producer may apply to the AEUB for the setting of tolls if agreement on tolls cannot be reached with the pipeline proprietor. Transportation service on the Pipelines has been made available on an open access non-discriminatory basis.

A shipper or producer may also apply to the AEUB for a review and setting of tolls, which must be just and reasonable. Applications to the AEUB for the setting of tolls could result in a toll reduction and decreased revenues to the Partnership. Although the tolls charged on the Bow River, Koch Alberta and Koch Valley Pipelines are a matter of contract, the AEUB has determined that the *Public Utilities Board Act* provides it with jurisdiction to override transportation contracts.

### **Abandonment Costs**

The Partnership will be responsible for compliance with all laws and regulations regarding the abandonment of the Pipeline Assets at the end of their economic life which abandonment costs may be substantial. Abandonment costs will be a function of regulatory requirements at the time of abandonment, the condition of the pipeline and the pipelines' location. Although it has been the General Partner's experience that line removal has not been required as part of the abandonment process, there can be no assurance that removal will not be required in the future. The General Partner may, in the future, determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. Such reserves would decrease Distributable Cash. See "Other Matters Relating to the Pipeline Assets — Costs of Abandonment".

### **Operational Factors**

The Partnership's operations will be subject to the customary hazards of the crude oil transportation business. The Partnership's operations could be interrupted by failures of pipeline, pumps and equipment or natural disasters or other events beyond the General Partner's control. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. The Partnership will carry insurance with respect to some, but not all, casualty occurrences and disruptions, which coverage may not be sufficient to compensate for all casualty occurrences.

The Pipelines are connected to various third party trunkline systems such as the IPL, Express and Trans Mountain Pipelines. Operational disruptions or apportionment on those third party systems may prevent the full utilization of the Pipeline Assets.

The General Partner intends to continue a "smart pigging" inspection and repair program commenced in 1996 which is designed to detect anomalies in line pipe. Koch has agreed to assume the costs associated with the remainder of the program to a maximum of \$10.0 million. The Partnership will be responsible for any costs in excess of this amount. There can be no assurance that the remaining costs associated with the program will not exceed \$10.0 million.

### **Multi-Jurisdictional Regulation**

The Pipeline Assets are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Alberta Energy and Utilities Board in Alberta, and Saskatchewan Oil and Gas Conservation Board in Saskatchewan. As a result, the results of operations of the Partnership may be affected by changes directed by such regulatory authorities. See "Industry Regulation".

### **Nature of the Class A Units**

Securities such as limited partnership Class A Units are often associated with investments which provide for returns arising from the pass through of income tax deferrals associated with partnership activities and a distribution of Distributable Cash. The Partnership is expected to renounce only nominal tax deferrals. The Class A Units do not have a guaranteed rate of return and represent a fractional interest in the Partnership.

### **Responsibility of General Partner**

The General Partner must exercise good faith and integrity in administering the assets and affairs of the Partnership. However, the Partnership Agreement contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to the Partnership and the Limited Partners, and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties. Unlike the strict duty of a trustee who must act solely in the best interests of his beneficiary, the Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of Koch as the sole shareholder of the General Partner. The

Partnership Agreement also provides that in certain circumstances the General Partner will act in its sole discretion, in good faith or pursuant to some other specified standard.

As a result, prospective purchasers of Class A Units should carefully consider that the General Partner does not owe to the Unitholders the same duties as a trustee would owe to the beneficiaries of a trust.

### **Conflicts of Interest**

Certain conflicts of interest could arise as a result of the General Partner's relationship with Koch Industries and its affiliates, on the one hand, and the Partnership on the other. Such conflicts may include, among others, the following situations: (i) the General Partner's determination of the amount and timing of any capital expenditures, borrowings and reserves; (ii) the issuance of additional Units; (iii) payments to Koch for any services rendered to or on behalf of the Partnership; (iv) agreements and transactions with Koch as producers and shippers utilizing the Pipelines; (v) the General Partner's determination of which direct and indirect costs are reimbursable by the Partnership; (vi) the enforcement by the General Partner of obligations owed by the General Partner or its affiliates to the Partnership; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of the Partnership. See "Conflicts of Interest and Fiduciary Responsibility".

Such conflicts of interest may also arise in the conduct of business by Koch, either currently or in the future, which may be in competition with the business conducted by the Partnership. Koch generally will not be restricted by the formation of the Partnership from pursuing their own business interests. Koch may in the future be in competition with the Partnership.

### **Inherent Tax Liability**

The assets held by the Partnership will generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets at this time and may be anticipated to be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition in the future of such assets by the Partnership may, depending on the particular circumstances of the disposition and the particular circumstances of the Partnership at such time, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by the Partnership which amounts would be allocated among the Partners for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to Partners based on the proportion of cash distributions received by the Partner in the fiscal year. See "Canadian Federal Income Tax Consequences — Taxation of Limited Partners — Computation of Income or Loss". The Partnership's cost for tax purposes of the Pipeline Assets will be approximately \$353.3 million which represents approximately 51.2% of the fair market value of such assets.

### **Absence of Prior Public Markets**

Prior to this offering, there has been no public market for the Class A Units. The initial public offering price and the number of Class A Units to be issued hereunder has been determined by negotiation among the General Partner, Koch Industries and the Underwriters. The price paid for the Class A Units may bear no relationship to the price at which the Class A Units will trade in the public market subsequent to this offering.

One of the factors that may influence the market price of the Class A Units or the Instalment Receipts is the annual distributions on the Class A Units. Accordingly, an increase in market interest rates may lead purchasers of Trust Units or Instalment Receipts to demand a higher annual distribution which could adversely affect the market price of the Trust Units or the Instalment Receipts. In addition, the market price for the Class A Units or the Instalment Receipts may be affected by changes in general market conditions, fluctuations in the markets for equity securities, interest rates and numerous other factors beyond the control of the Partnership.

### **Capital Resources**

Future expansions of the Pipeline Assets and other capital expenditures will be financed out of cash generated from operations, sales of additional Class A Units or borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to the Partnership to fund expansion or other required capital expenditures.

### **Leverage**

Borrowings made by the General Partner on behalf of the Partnership will introduce leverage into the Partnership's business which will increase the level of financial risk in the operations of the Partnership and, to the

extent interest rates are not fixed, increases the sensitivity of distributions by the Partnership to interest rate variations.

### **Anticipated Sales of Additional Units; Dilution**

The General Partner currently anticipates that the Partnership may issue additional Units in the future to finance certain of the Partnership's capital expenditures, including acquisitions. The Partnership Agreement permits the Partnership to issue an unlimited number of additional Units without the approval of Unitholders. The Unitholders, other than the General Partner and its affiliates, will have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price and the terms of issue of additional Units. Any issuance of Units may have a dilutive effect on the purchasers of Units offered hereby.

### **Reliance on General Partner and Association with Koch**

The Partnership will be dependent on the General Partner in respect of the administration and management of all matters relating to the management and operation of the Partnership and the Pipeline Assets. The General Partner currently has no employees other than certain senior officers who perform services for the General Partner on a part-time basis. Therefore, the General Partner will be dependent upon Koch for all management, operating and administrative services in respect of the Partnership business.

Except in limited circumstances, the General Partner has agreed not to withdraw voluntarily as general partner of the Partnership until the fifth anniversary of the closing of the offering. However, there is no agreement to which the Partnership is a party that restricts the ability of Koch Industries to sell all or part of its ownership interest in the General Partner to a third party or parties. See "The Partnership Agreement — Withdrawal or Removal of General Partner".

Although the Partnership anticipates that it will benefit from growth opportunities, if any originated by the oil and gas producer services and exploration businesses of Koch Canada and other services to be provided by Koch, in the event that the General Partner is removed or withdraws as the general partner of the Partnership or otherwise ceases to be associated with Koch, the Partnership would lose the benefits of the services provided by Koch and the growth opportunities, if any, originated by Koch Canada.

### **Limited Voting Rights, Management and Control; Difficulty in Removing General Partner**

Unitholders will generally not have voting rights in relation to matters involving the Partnership. The General Partner will manage and control the activities of the Partnership. Unitholders will have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the Limited Partners.

### **Limited Liability**

A Limited Partner may lose the protection of limited liability if it takes part in the control of the business of the Partnership or does not comply with legislation governing limited partnerships in force in provinces where the Class A Units are offered for sale or where the Partnership carries on business.

### **Financial Forecast**

Actual results for the forecast period will vary from the forecast results and variations may be material. There is no representation by the General Partner that actual results achieved during the forecast period will be the same, in whole or in part, as those forecasted herein.

### **General Partner Indemnity**

While the General Partner has agreed to indemnify the Limited Partners in circumstances described herein, the General Partner may not have sufficient assets to honour such indemnification.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer, counsel for Koch and the Partnership, and Milner Fenerty, counsel for the Underwriters, subject to compliance with the prudent investment standards and general investment provisions and restrictions of the statutes referred to below (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to the investment or lending policies, procedures or goals and, in certain cases, the filing of such policies or goals, the Class A Units offered hereby will not, at the date of closing, be precluded as investments under the following statutes:

*Insurance Companies Act* (Canada)  
*Trust and Loan Companies Act* (Canada)  
*Pension Benefits Standards Act, 1985* (Canada)  
*Financial Institutions Act* (British Columbia)  
*Loan and Trust Corporations Act* (Alberta)  
*Insurance Act* (Alberta)  
*Employment Pension Plans Act* (Alberta)  
*Alberta Heritage Savings Trust Fund Act* (Alberta)  
*The Pension Benefits Act, 1992* (Saskatchewan)  
*The Insurance Act* (Manitoba)

*Pension Benefits Act* (Ontario)  
*an Act respecting trust companies and savings companies*  
(Québec) (except trust companies with respect to funds, other than deposits, which are administered for other persons)  
*Supplemental Pensions Plans Act* (Québec)  
*an Act respecting insurance* (Québec) (in respect of insurers other than guarantee fund corporations, mutual associations and professional corporations)  
*Pension Benefits Act* (New Brunswick)

In addition, in the opinion of such counsel, on and after listing of the Class A Units on a prescribed stock exchange, the Class A Units offered hereby will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans. **However, Class A Units will constitute foreign property for such plans.** See “Canadian Federal Income Tax Considerations”.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts which either of the General Partner or the Partnership have entered, or are entering into, are as follows:

1. Asset Purchase Agreement;
2. Partnership Agreement;
3. Non-Competition Agreement;
4. Support Agreement;
5. Underwriting Agreement; and
6. Instalment Receipt Agreement.

Copies of the foregoing documents may be inspected at the head office of the General Partner, 1400, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6 and at the offices of Fogler, Rubinoff, Barristers & Solicitors, 4400 Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario, M5K 1G8, during normal business hours at any time during the period of distribution to the public of the Class A Units offered hereby and for a period of 30 days thereafter and at the offices of the Alberta Securities Commission during normal business hours at any time.

## LEGAL MATTERS

Certain legal matters pertaining to the offering of the Class A Units hereunder will be passed upon for Koch Industries and the Partnership by Burnet, Duckworth & Palmer, and on behalf of the Underwriters by Milner Fenerty.

There are no legal proceedings involving the General Partner or the Partnership at this time. Further, there are no material legal proceedings involving the Pipeline Assets.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Koch has or will have certain arrangements with the Partnership. The General Partner will transfer the Pipeline Assets to the Partnership pursuant to the Asset Purchase Agreement. The General Partner, an affiliate of Koch Industries, will manage the Partnership and will be entitled to certain management, incentive and transaction fees from the Partnership as described herein. The General Partner will enter into the Non-Competition Agreement with the Partnership on closing, whereby the General Partner will agree to certain restrictions on the ability of the General Partner and its affiliates to compete with the Partnership. Finally, the General Partner will, after closing of this offering, hold Class B Units of the Partnership and will be entitled to distributions of cash therefrom.

## **AUDITORS, REGISTRARS AND TRANSFER AGENTS**

The auditors of the Partnership are Ernst & Young, 1300, 707 – 7th Avenue S.W., Calgary, Alberta, T2P 3H6.

The registrar and transfer agent for the Class A Units is The Trust Company of Bank of Montreal at its principal stock and bond transfer offices located in Calgary and Toronto.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some provinces, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province. The purchaser should refer to any applicable provisions of the securities legislation of his or her province for the particulars of these rights or consult with a legal advisor.

## FINANCIAL STATEMENTS INDEX

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## AUDITORS' REPORT

To the Board of Directors of Koch Pipelines Canada Ltd.,  
as general partner of Koch Pipelines Canada, L.P.

We have audited the balance sheet of Koch Pipelines Canada, L.P. (the "Partnership") as at October 9, 1997. This balance sheet is the responsibility of the management of Koch Pipelines Canada Ltd., as general partner of Koch Pipelines Canada, L.P. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Partnership as at October 9, 1997 in accordance with generally accepted accounting principles.

Calgary, Canada  
November 18, 1997

(Signed) ERNST & YOUNG  
Chartered Accountants

# KOCH PIPELINES CANADA, L.P.

## BALANCE SHEET

As at October 9, 1997

|  | <u>1997</u>  |
|--|--------------|
| Cash .....   | <u>\$ 10</u> |
| Partner's equity:  |              |
| Limited Partner's Capital account — 1 Class A Unit ..... | <u>\$ 10</u> |

*See accompanying notes*

On behalf of Koch Pipelines Canada Ltd.,  
as General Partner of Koch Pipelines Canada, L.P.:

(Signed) DAVID W. FESYK  
Director

(Signed) STEPHEN K. KROMER  
Director

### 1. BASIS OF PRESENTATION AND BUSINESS OF THE PARTNERSHIP

Koch Pipelines Canada, L.P. (the "Partnership") is a limited partnership created on October 9, 1997 under the laws of Alberta pursuant to the terms of a partnership agreement between Koch Pipelines Canada Ltd. (the "General Partner"), as general partner, and 687371 Alberta Ltd., as a limited partner. The General Partner is indirectly wholly-owned by Koch Industries, Inc. ("Koch Industries"). An unlimited number of partnership units have been authorized for issuance by the Partnership.

On creation of the Partnership, 687371 Alberta Ltd. contributed \$10 to the Partnership's capital account in consideration of the issue of one Class A Partnership unit. The Partnership had no operations prior to October 9, 1997.

The Partnership will be owned by the public and the General Partner. The Partnership was created for the purpose of acquiring and operating certain pipeline interests owned by certain direct and indirect subsidiaries of Koch Industries. The Partnership's business is restricted to activities which are directly or indirectly related to the transportation, storage, marketing and processing of hydrocarbons and holding investments in other entities which are engaged primarily in these activities.

Being a limited partnership, the Partnership will be dependent on the General Partner in respect of the administration and management of all matters relating to the operation of the Partnership and the Pipeline Assets. The terms of the management services to be provided by the General Partner to the Partnership and the General Partner's duties and obligations are more fully set forth in the Partnership Agreement and the Support Agreement described elsewhere in this Prospectus.

## COMPILATION REPORT

To the Board of Directors of Koch Pipelines Canada Ltd.,  
as general partner of Koch Pipelines Canada, L.P.

We have reviewed, as to compilation only, the accompanying pro forma combined balance sheet of Koch Pipelines Canada, L.P. as at December 31, 1996 which has been prepared for inclusion in this prospectus relating to the distribution of Class A limited partnership units of Koch Pipelines Canada, L.P. In our opinion, the pro forma combined balance sheet has been properly compiled to give effect to the proposed transactions and assumptions described in the notes thereto.

Calgary, Canada  
November 18, 1997

(Signed) ERNST & YOUNG  
Chartered Accountants

**KOCH PIPELINES CANADA, L.P.**

**PRO FORMA COMBINED BALANCE SHEET**

As at December 31, 1996  
Unaudited — See Compilation Report

|   | <u>Partnership<br/>Historical</u><br>October 9, 1997 | <u>Pro forma<br/>Adjustments</u>   | <u>Partnership<br/>Pro Forma</u><br>December 31, 1996 |
|---|--|------------------------------------|---|
|   |  | (thousands of dollars)<br>(note 2) |   |
| <b>ASSETS</b>   |  |                                    |   |
| <b>Current</b>  |  |                                    |   |
| Cash .....  | 1  | 1                                  | 2   |
| Accounts receivable .....                               | —  | 12,032                             | 12,032  |
| Prepaid expenses .....                                  | —  | 10,167                             | 10,167  |
| Instalment receipts due .....                           | —  | 150,000                            | 150,000   |
|   | <u>1</u>   | <u>172,200</u>                     | <u>172,201</u>  |
| Capital assets .....                                    | —  | 678,832                            | 678,832   |
|   | <u>1</u>   | <u>851,032</u>                     | <u>851,033</u>  |
| <b>LIABILITIES AND PARTNERS' EQUITY</b>                 |  |                                    |   |
| <b>Current</b>  |  |                                    |   |
| Accounts payable and accrued liabilities .....          | —  | 11,366                             | 11,366  |
| Due to the General Partner .....                        | —  | 150,000                            | 150,000   |
|   | —  | <u>161,366</u>                     | <u>161,366</u>  |
| <b>Partners' equity</b>                                 |  |                                    |   |
| Limited Partners' capital account — Class A Units ..... | 1  | 353,313                            | 353,314   |
| General Partner's capital account — Class B Units ..... | —  | 336,353                            | 336,353   |
|   | <u>1</u>   | <u>851,032</u>                     | <u>851,033</u>  |

*See accompanying notes*

# KOCH PIPELINES CANADA, L.P.

## NOTES TO PRO FORMA COMBINED BALANCE SHEET DECEMBER 31, 1996 — UNAUDITED

### 1. BASIS OF PRESENTATION

The accompanying pro forma combined balance sheet of Koch Pipelines Canada, L.P. (the "Partnership") has been prepared by Koch Pipelines Canada Ltd. (the "General Partner"), the general partner of the Partnership, in accordance with generally accepted accounting principles and has been approved by the Board of Directors of the General Partner. The pro forma combined balance sheet gives effect to the issuance of Class A limited partnership units and Class B general partnership units by the Partnership and the acquisition of the Pipeline Assets of certain direct and indirect subsidiaries (collectively "Koch Canada") of Koch Industries, Inc. ("Koch Industries"). The pro forma balance sheet has been prepared from information derived from each of the audited balance sheet of the Partnership as at October 9, 1997 and audited combined financial statements of the Pipeline Assets of Koch Canada as at December 31, 1996 and the assumptions set forth in note 2 below. In the opinion of the General Partner, the pro forma combined balance sheet includes all adjustments necessary for future presentation. Being a limited partnership, the Partnership will be dependent on the General Partner in respect of the administration and management of all matters relating to the operation of the Partnership and the Pipeline Assets. The terms of the management services to be provided by the General Partner to the Partnership and the General Partner's duties and obligations are more fully set forth in the Partnership Agreement and the Support Agreement described elsewhere in this Prospectus.

The Partnership was created for the purpose of acquiring and operating certain assets (the "Pipeline Assets") owned by Koch Canada and consisting of Koch Canada's interest in certain operating crude oil pipelines (Bow River Pipeline System, Koch Alberta Pipeline System, Koch Valley Pipeline System, Mid-Saskatchewan Pipeline System). The General Partner is indirectly wholly-owned by Koch Industries.

Koch Industries will have an indirect, 48.8% ownership interest in the Partnership. The Partnership will account for the transfer of Pipeline Assets using the purchase method since Koch Canada will have disposed of 51.2% of the Pipeline Assets. Under this method of accounting, the Partnership will record the assets acquired from Koch Canada at fair value.

### 2. PRO FORMA ADJUSTMENTS WITH RESPECT TO THE ACQUISITION OF THE PIPELINE ASSETS AND THE SALE & ISSUE OF PARTNERSHIP UNITS

The unaudited pro forma combined balance sheet gives effect to the acquisition by the Partnership of the Pipeline Assets and the issuance of Units as if each of the transactions occurred as at December 31, 1996. The pro forma adjustments reflected in the unaudited pro forma combined balance sheet are as follows:

The transfer of the Pipeline Assets to the Partnership in consideration for 35,700,000 Class B Units representing an approximate 48.8% Partnership interest, \$203.3 million cash and \$150.0 million receivable from the Partnership due in one year; and the concurrent public offering of Class A Units representing an approximate 51.2% partnership interest for \$353.3 million cash proceeds, such proceeds being used to acquire the Pipeline Assets.

The purchase price for the units is payable on an instalment basis. The final instalment of \$150.0 million is assumed to be collected one year after the closing of the offering whereupon it will be paid to the General Partner. The amount due to the General Partner is non-interest bearing.

The purchase price for the Pipeline Asset acquisition has been allocated as follows:

|  | (thousands of dollars) |
|--|------------------------|
| Value of 35,700,000 Class B Units issued .....                                 | 336,353                |
| Cash paid for Pipeline Assets .....  | 203,313                |
| Amount due to the General Partner upon collection of instalment receipts ..... | 150,000                |
| Purchase price .....   | <u>689,666</u>         |
| <b>Allocated to:</b>   |                        |
| Net working capital acquired at fair value .....                               | 10,834                 |
| Pipeline facilities and equipment acquired at fair value .....                 | <u>678,832</u>         |
|  | <u>689,666</u>         |

Included in the amount allocated to the net working capital acquired is an amount of \$10.0 million for prepaid pipeline inspection costs relating to the future pipeline inspection program to be completed by Koch as described elsewhere in this prospectus.

### 3. FUTURE SITE RESTORATION AND ABANDONMENT COSTS

Future site restoration and abandonment costs will be a function of a number of factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the Pipeline Assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the Pipeline Assets can reasonably be determined, estimated costs will be provided over the remaining life of the Pipeline Assets. Accordingly, no liability for future site restoration and abandonment costs has been recorded on the acquisition of the Pipeline Assets.

## AUDITORS' REPORT

To the Directors of  
Koch Industries, Inc.

We have audited the combined balance sheets of Koch Canada — Pipeline Assets, as defined in Note 1 to the combined financial statements, as at December 31, 1996 and 1995 and the combined statements of operations and capital employed and cash flows for each of the years in the three year period ended December 31, 1996. These combined financial statements are the responsibility of Koch Canada's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of Koch Canada — Pipeline Assets as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1996 in accordance with generally accepted accounting principles.

Calgary, Canada  
September 26, 1997  
(except for note 6  
which is as of November 18, 1997)

(Signed) ERNST & YOUNG  
Chartered Accountants

# KOCH CANADA — PIPELINE ASSETS

## COMBINED BALANCE SHEETS

(see basis of presentation — note 1)

|  | July 31,<br>1997       | December 31,   |                |
|--|------------------------|----------------|----------------|
|  |                        | 1996           | 1995           |
|  | (thousands of dollars) |                |                |
|  | (unaudited)            |                |                |
| <b>ASSETS</b>                                  |                        |                |                |
| <b>Current</b>                                 |                        |                |                |
| Cash .....                                     | 1                      | 1              | 1              |
| Accounts receivable .....                      | 12,312                 | 12,032         | 8,280          |
| Prepaid expenses .....                         | 107                    | 167            | 67             |
|  | <u>12,420</u>          | <u>12,200</u>  | <u>8,348</u>   |
| Capital assets (note 4) .....                  | 197,522                | 192,012        | 174,237        |
|  | <u>209,942</u>         | <u>204,212</u> | <u>182,585</u> |
| <b>LIABILITIES AND CAPITAL EMPLOYED</b>        |                        |                |                |
| <b>Current liabilities</b>                     |                        |                |                |
| Accounts payable and accrued liabilities ..... | 7,418                  | 11,366         | 6,889          |
| Capital employed (note 3) .....                | 202,524                | 192,846        | 175,696        |
|  | <u>209,942</u>         | <u>204,212</u> | <u>182,585</u> |

On behalf of Koch Canada — Pipeline Assets:

(Signed) JOSEPH W. MOELLER  
Director, Koch Industries, Inc.

(Signed) DONALD L. CORDES  
Director, Koch Industries, Inc.

**KOCH CANADA — PIPELINE ASSETS**

**COMBINED STATEMENTS OF OPERATIONS**  
**AND CAPITAL EMPLOYED**

|  | Seven months ended<br>July 31, |                | Years ended December 31, |                |                |
|--|--------------------------------|----------------|--------------------------|----------------|----------------|
|  | 1997                           | 1996           | 1996                     | 1995           | 1994           |
|  | (unaudited)                    |                | (thousands of dollars)   |                |                |
| <b>Revenue</b> (note 5) .....                | <u>45,955</u>                  | <u>44,788</u>  | <u>79,369</u>            | <u>74,987</u>  | <u>65,387</u>  |
| <b>Expenses</b>                              |                                |                |                          |                |                |
| Operating .....                              | 13,014                         | 10,176         | 18,628                   | 18,611         | 17,435         |
| General and administrative .....             | <u>1,669</u>                   | <u>1,484</u>   | <u>3,024</u>             | <u>2,738</u>   | <u>2,718</u>   |
|  | <u>14,683</u>                  | <u>11,660</u>  | <u>21,652</u>            | <u>21,349</u>  | <u>20,153</u>  |
| Income before depreciation .....             | 31,272                         | 33,128         | 57,717                   | 53,638         | 45,234         |
| Depreciation .....                           | <u>4,162</u>                   | <u>3,945</u>   | <u>6,788</u>             | <u>5,870</u>   | <u>5,377</u>   |
| <b>Net income before tax</b> .....           | 27,110                         | 29,183         | 50,929                   | 47,768         | 39,857         |
| Distributions to Koch Canada (note 3) .....  | (17,432)                       | (12,373)       | (33,779)                 | (30,825)       | (28,453)       |
| Capital employed, beginning of period .....  | <u>192,846</u>                 | <u>175,696</u> | <u>175,696</u>           | <u>158,753</u> | <u>147,349</u> |
| <b>Capital employed, end of period</b> ..... | <u>202,524</u>                 | <u>192,506</u> | <u>192,846</u>           | <u>175,696</u> | <u>158,753</u> |

*See accompanying notes*

# KOCH CANADA — PIPELINE ASSETS

## COMBINED STATEMENTS OF CASH FLOWS

|  | Seven months ended<br>July 31, |          | Years ended December 31, |          |          |
|--|--------------------------------|----------|--------------------------|----------|----------|
|  | 1997                           | 1996     | 1996                     | 1995     | 1994     |
|  | (unaudited)                    |          | (thousands of dollars)   |          |          |
| <b>Operating Activities</b>  |                                |          |                          |          |          |
| Net income before tax .....  | 27,110                         | 29,183   | 50,929                   | 47,768   | 39,857   |
| Add item not affecting cash  |                                |          |                          |          |          |
| Depreciation .....   | 4,162                          | 3,945    | 6,788                    | 5,870    | 5,377    |
|  | 31,272                         | 33,128   | 57,717                   | 53,638   | 45,234   |
| Net change in non-cash working capital relating to<br>operating activities ..... | (3,234)                        | (2,065)  | 991                      | (1,161)  | 1,316    |
|  | 28,038                         | 31,063   | 58,708                   | 52,477   | 46,550   |
| <b>Investing activities</b>  |                                |          |                          |          |          |
| Additions to capital assets, net .....   | (9,672)                        | (17,390) | (24,563)                 | (22,952) | (18,097) |
| Net change in non-cash working capital related to<br>investing activities .....  | (934)                          | (1,300)  | (366)                    | 1,300    | —        |
|  | (10,606)                       | (18,690) | (24,929)                 | (21,652) | (18,097) |
| <b>Financing activities</b>  |                                |          |                          |          |          |
| Distributions to Koch Canada, net (note 3) .....                                 | (17,432)                       | (12,373) | (33,779)                 | (30,825) | (28,453) |
| Change in cash .....   | —                              | —        | —                        | —        | —        |
| Cash, beginning and end of period .....  | 1                              | 1        | 1                        | 1        | 1        |

*See accompanying notes*

# KOCH CANADA — PIPELINE ASSETS

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 1996, 1995 and 1994

(information as at July 31, 1997 and for the periods ended July 31, 1997 and 1996 is unaudited)

### 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The accompanying combined financial statements of Pipeline Assets include certain operating crude oil pipeline businesses conducted by certain direct and indirect subsidiaries (collectively, "Koch Canada") of Koch Industries, Inc. ("Koch Industries"). The Pipeline Assets comprise a 100% interest in the Bow River, Koch Alberta, Koch Valley and Mid-Saskatchewan Pipeline Systems. "Koch Canada — Pipeline Assets" has no separate legal status or existence. Revenues earned from the transportation of liquids owned by other affiliates of Koch Industries are described in note 5.

The financial statements combine the historical financial information of the Pipeline Assets referred to above and reflect the financial position, results of operations and changes in financial position of the Pipeline Assets based on Koch Canada's historical costs. Operating and general and administrative expenses include direct costs incurred by Koch Canada on the Pipeline Assets' behalf and an allocation of operating and general and administrative expenses of Koch Canada based on time spent on the activities associated with Pipeline Assets operations. Such amounts are recorded at an estimate of Koch Canada's cost for such expenses.

Income taxes are exigible on Koch Canada, however the Pipeline Assets are not a taxable entity. Because a meaningful allocation of the Pipeline Assets' share of Koch Canada's income taxes could not be made, these combined financial statements do not account for income taxes.

No other material adjustments have been made in the preparation of the accompanying combined financial statements.

These combined financial statements may not necessarily be indicative of the results that would have been attained if the Pipeline Assets had been operated on a stand alone basis.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Capital assets

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the facilities and equipment are placed in commercial operation and is provided on the declining balance or straight line basis over their estimated service lives. The service life for pipeline systems is determined with reference to the remaining life of the crude oil reserves gathered on the particular pipeline systems.

#### (b) Future site restoration and abandonment costs

Pipeline Asset operations will be charged with any costs associated with the future site restoration and abandonment of the Pipeline Assets. The potential costs of abandonment will be a function of a number of factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the Pipeline Assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the Pipeline Assets can reasonably be determined, estimated costs will be provided over the remaining life of the Pipeline Assets. Accordingly, no provision for such future costs has been recorded.

### 3. CAPITAL EMPLOYED

The surplus funds of the Pipeline Assets are transferred to Koch Canada and the financing requirements of the Pipeline Assets are provided by Koch Canada as reflected through the capital employed in the Pipeline Assets by Koch Canada.

### 4. CAPITAL ASSETS

|   | July 31,<br>1997       | December 31, |          |
|---|------------------------|--------------|----------|
|   |                        | 1996         | 1995     |
|   | (thousands of dollars) |              |          |
|   | (unaudited)            |              |          |
| Land .....                              | 592                    | 592          | 586      |
| Pipeline facilities and equipment ..... | 241,927                | 235,410      | 209,614  |
| Capital spares .....                    | 813                    | 880          | 1,131    |
| Construction in progress .....          | 7,051                  | 3,931        | 5,283    |
|   | 250,383                | 240,813      | 216,614  |
| Accumulated amortization .....          | (52,861)               | (48,801)     | (42,377) |
| Net book value .....                    | 197,522                | 192,012      | 174,237  |

**5. RELATED PARTY TRANSACTIONS**

Included in revenues are revenues earned from affiliates of Koch Industries which are recorded at their exchange amounts as follows: seven month period ended July 31, 1997 — \$4,953,000; seven month period ended July 31, 1996 — \$4,595,000; years ended December 31, 1996 — \$8,922,000; December 31, 1995 — \$7,438,000; and December 31, 1994 — \$6,153,000.

The nature and basis of other transactions with Koch Industries or its affiliates are described in note 1.

**6. SUBSEQUENT EVENTS**

Koch Pipelines Canada, L.P. filed a prospectus dated November 18, 1997 with certain securities regulatory authorities relating to the sale and issue of limited partnership units to the public. The proceeds from the offering (including any amounts due on an instalment basis), plus 35,700,000 Class B Limited Partnership units will be transferred to the General Partner as consideration for the sale of the Pipeline Assets to Koch Pipelines Canada, L.P.

## CERTIFICATE OF THE PARTNERSHIP AND PROMOTER

Dated: November 18, 1997

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act* (Saskatchewan), by Part VIA of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by section 13 of the *Securities Act* (New Brunswick) and the respective regulations thereunder and by Part XIV of *The Securities Act* (Newfoundland). This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

Koch Pipelines Canada, L.P.

By its general partner:

Koch Pipelines Canada Ltd.

(Signed) DAVID W. FESYK  
President  
and Chief Executive Officer

(Signed) DAVID G. PARK  
Vice-President, Finance  
and Chief Financial Officer

On behalf of the board of directors of

Koch Pipelines Canada Ltd.

(Signed) STEPHEN K. KROMER  
Director

(Signed) JOSEPH W. MOELLER  
Director

On behalf of the Promoter:

Koch Industries, Inc.

(Signed) JOSEPH W. MOELLER  
Executive Vice-President

## CERTIFICATE OF THE UNDERWRITERS

Dated: November 18, 1997

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act* (Saskatchewan), by Part VIA of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by section 13 of the *Securities Act* (New Brunswick) and the respective regulations thereunder and by Part XIV of *The Securities Act* (Newfoundland). This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

RBC DOMINION SECURITIES INC.

By: (Signed) BRIAN K. PETERSEN

SCOTIAMCLEOD INC.

By: (Signed) DAVID A. POTTER

NESBITT BURNS INC.

By: (Signed) JOHN ABBOTT

CIBC WOOD GUNDY SECURITIES INC.

By: (Signed) KURT B. MOLNAR

MIDLAND WALWYN CAPITAL INC.

GOLDMAN SACHS CANADA  
(By its General Partner Goldman Sachs Canada Inc.)

By: (Signed) DANIEL J. CRISTALL

By: (Signed) JAMES T. KIERNAN

LÉVESQUE BEAUBIEN GEOFFRION INC.

TD SECURITIES INC.

By: (Signed) ALEXANDER A. KERKOVIVUS

By: (Signed) ROBERT W. GIBSON

GORDON CAPITAL CORPORATION

NEWCREST CAPITAL INC.

By: (Signed) T. ANDREW HICKEY

By: (Signed) JAMES HINDS

The following includes the name of every person or company having an interest, directly or indirectly, to the extent of not less than 5% in the capital of:

RBC DOMINION SECURITIES INC.: a wholly-owned subsidiary of RBC Dominion Securities Limited, a majority owned subsidiary of a Canadian chartered bank;

SCOTIAMCLEOD INC.: a wholly-owned subsidiary of a Canadian chartered bank;

NESBITT BURNS INC.: a wholly-owned subsidiary of The Nesbitt Burns Corporation Limited, a majority-owned subsidiary of a Canadian chartered bank;

CIBC WOOD GUNDY SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

MIDLAND WALWYN CAPITAL INC.: a wholly-owned subsidiary of Midland Walwyn Inc.;

GOLDMAN SACHS CANADA: a limited partnership in which The Goldman Sachs Group, L.P. is the limited partner and Goldman Sachs Canada Inc., a wholly-owned subsidiary of The Goldman Sachs Group, L.P., is the general partner;

LÉVESQUE BEAUBIEN GEOFFRION INC.: wholly-owned by Lévesque, Beaubien and Company Inc., a majority-owned subsidiary of a Canadian chartered bank;

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

GORDON CAPITAL CORPORATION; Pacific Century GC Holdings Inc., J.R. Connacher, J.N. Green, J. Warwick; and

NEWCREST CAPITAL INC.: Alain Boileau, Paul Brehl, David Davidson, Douglas Dawson, Robert Dorrance, Doug Gordon, Jean-Luc Gravel, Peter Grosskopf, James Hinds, Scott MacNicol, Jacques Massicotte, David McCracken, John O'Sullivan, Lee Pettigrew, Robert Price, Robbie Pryde, Benoit Robert, Sanwa Holdings Canada Inc., Marla Schwartz and Glynn Williams.



**Schedule A**

**LIMITED PARTNERSHIP AGREEMENT**

**AMONG**

**KOCH PIPELINES CANADA LTD.**

**AND**

**687371 ALBERTA LTD.**

**AND**

**EACH PERSON WHO IS ADMITTED TO THE  
PARTNERSHIP AS A UNITHOLDER IN ACCORDANCE  
WITH THE TERMS HEREOF**

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# KOCH PIPELINES CANADA, L.P.

## LIMITED PARTNERSHIP AGREEMENT

THIS LIMITED PARTNERSHIP AGREEMENT made as of October 9, 1997, and made among Koch Pipelines Canada Ltd., as the General Partner, 687371 Alberta Ltd., as the Initial Limited Partner, and each Person who is admitted to the Partnership as a Unitholder in accordance with the terms hereof.

NOW THEREFORE THIS AGREEMENT WITNESSES THAT IN CONSIDERATION of the covenants and agreements contained in this Agreement, the Partners agree with each other as follows:

### ARTICLE 1

#### INTERPRETATION

##### 1.1 Definitions

In this Agreement the following words have the following meanings:

“**Act**” means the *Partnership Act* (Alberta);

“**Affiliate**” means, with respect to any Person, any other Person that (i) directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question, or (ii) owns, beneficially, directly or indirectly, 50% or more of the outstanding capital stock, shares or other equity interests of the Person in question. For these purposes, a Person shall be deemed to be controlled by another Person or by two or more Persons if (i) more than 50% of the voting power of shares of the Person in question entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such body corporate are owned, directly or indirectly, at the date of determination, by or for the benefit of the other Person or by or for the benefit of the other Persons, (ii) in the case of a Person that is a partnership (whether general or limited) the other Person or Persons are, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interest of such partnership (considering all of the partnership interest of such partnership as a single class) are owned, directly or indirectly, at the date of determination, by or for the benefit of such other Person or by or for the benefit of such Persons, or (iii) in the case of any Person (other than a body corporate or a partnership) such other Person or Persons, directly or indirectly, at the date of determination, have at least a majority ownership interest or the power to elect or direct the election of a majority of the directors or other governing body of such Person;

“**Agreement**” means this Limited Partnership Agreement dated as of the 9th day of October, 1997, and made among Koch Pipelines Canada Ltd., as the General Partner of the Partnership, 687371 Alberta Ltd. as the Initial Limited Partner of the Partnership, and those parties referred to as Unitholders herein, as from time to time amended, supplemented or restated;

“**Asset Purchase Agreement**” means the agreement to be entered into between the General Partner and the Partnership pursuant to which the Partnership will purchase the Pipeline Assets from the General Partner in exchange for cash and Class B Units;

“**Associate**” where used to indicate a relationship with any Person has the same meaning as in the *Securities Act* (Alberta);

“**Auditor**” means Ernst & Young, or such other firm whose partners are members, in good standing, of the Canadian Institute of Chartered Accountants and which is appointed from time to time as auditor of the Partnership by the General Partner;

“**Bow River Pipeline System**” means the 1,525 mile crude oil feeder pipeline and gathering system between Hardisty, Alberta and Milk River, Alberta to be acquired by the Partnership from the General Partner pursuant to the Asset Purchase Agreement;

“**Capital Contribution**” of a Unitholder means the total amount of money or property paid or agreed to be paid to the Partnership by such Unitholder, or a predecessor Unitholder, in respect of Units subscribed for by

such Unitholder, or a predecessor Unitholder, where subscriptions therefor have been accepted by the General Partner and

- (a) in the case of the Class A Units to be issued pursuant to the Underwriting Agreement, means the amount determined in accordance with Section 4.4;
- (b) in the case of Class B Units to be issued to the General Partner pursuant to the Asset Purchase Agreement, means the portion of the purchase price applicable to the Pipeline Assets which is not being paid for in cash; and
- (c) in the case of the Class A Units issued from time to time upon conversion of Class B Units, the amount that is the Capital Contribution applicable to the Class B Units being converted shall be deducted from the Capital Contribution applicable to the Class B Units being converted and shall be added to the Capital Contribution applicable to the Class A Units being issued on conversion;

and the Capital Contribution applicable to Units shall be reduced from time to time in accordance with Section 7.2;

**“Certificate”** means the certificate of limited partnership for the Partnership to be filed under the Act and all amendments thereto and renewals, replacements or restatements thereof;

**“Class A Units”** means Class A limited partnership units of the Partnership;

**“Class B Units”** means Class B general partner units of the Partnership;

**“Depository”** means The Canadian Depository for Securities Limited, or its nominee which as at the date hereof is “CDS & Co.”, or a successor thereto;

**“Distributable Cash”** is equal to Operating Cash plus the aggregate of:

- (a) interest and other income earned by the Partnership; plus
- (b) cash proceeds from capital transactions, such as borrowings, issuances of Units and sales of assets; plus
- (c) reductions in reserves previously established by the General Partner; plus
- (d) any tax refunds received, which relate to taxes previously deducted in the computation of Distributable Cash;  
minus the aggregate of:
  - (e) direct and indirect general and administrative costs incurred by the Partnership (to the extent not already deducted in determining Operating Cash); plus
  - (f) debt service costs, including interest, principal, fees and discounts with respect to indebtedness incurred by or in connection with the Partnership, the Pipeline Assets or New Assets; plus
  - (g) current income, capital, withholding and other taxes accruing which are reasonably related to amounts included in computing Distributable Cash; plus
  - (h) increases in reserves established by the General Partner; plus
  - (i) any capital expenditures incurred in connection with the Pipeline Assets and New Assets (excluding the cost to complete the expansion projects underway at the time of closing for which the General Partner or its affiliates are responsible pursuant to the Asset Purchase Agreement); plus
  - (j) amounts paid or payable to the General Partner under Section 6.1 (to the extent that such amounts have not been deducted in the calculation of Operating Cash); plus
  - (k) the management, incentive and other fees payable to the General Partner under Section 6.2 (to the extent that such fees have not been deducted in the calculation of Operating Cash).

**“Eligible Investor”** means a Person other than a Person who is, or who acts on behalf of a Person who will have a beneficial interest in Units who is, in either case, a “non-resident” within the meaning of the Tax Act, a partnership that is not a “Canadian partnership” under the Tax Act, a Person an interest in which would be a “tax shelter investment” as defined in certain proposed amendments to the Tax Act, a present or former direct or indirect shareholder of Koch Industries or an associate or affiliate of a present or former director or indirect shareholder of Koch Industries, provided that for these purposes, the terms “associate” and

“affiliate” do not include Koch Industries, the General Partner, the Partnership or any direct or indirect Subsidiary of Koch Industries;

“**Extension**” means a new crude oil mainline transmission pipeline that interconnects between Systems, connects to a facility other than a production site or provides for infrastructure necessary to accommodate the introduction into the System of a new service or product other than crude oil;

“**Extraordinary Resolution**” means:

- (a) a resolution approved by more than 66⅔% of the votes cast in person or by proxy at a duly constituted meeting of Unitholders or at any adjournment thereof, called in accordance with this Agreement; or
- (b) a written resolution in one or more counterparts signed by Unitholders holding in the aggregate more than 66⅔% of the aggregate number of outstanding Units;

“**Fiscal Year**” has the meaning set forth in Section 2.6;

“**General Partner**” means Koch Pipelines Canada Ltd. or any other party who may become the general partner of the Partnership in place of or in substitution for Koch Pipelines Canada Ltd., from time to time, in each case until such general partner ceases to be the general partner of the Partnership under the terms of this Agreement;

“**Independent Directors**” means those members of the board of directors of the General Partner who are not officers, directors or employees of Koch Industries or its Affiliates (other than the General Partner);

“**Initial Limited Partner**” means 687371 Alberta Ltd.;

“**Koch Alberta Pipeline System**” means the 390 mile crude oil feeder pipeline and gathering system between Hussar, Alberta and Edmonton, Alberta to be acquired by the Partnership from the General Partner pursuant to the Asset Purchase Agreement;

“**Koch**” means Koch Industries, and its Subsidiaries;

“**Koch Canada**” means, collectively, Bow River Pipe Lines Ltd., Mid-Saskatchewan Pipe Lines, Ltd., Koch Pipelines Ltd. and Koch Oil Co. Ltd. and, unless the context requires otherwise, includes their respective subsidiaries;

“**Koch Industries**” means Koch Industries, Inc., a Kansas corporation;

“**Koch Valley Pipeline System**” means the 151 mile condensate feeder pipeline system between Turner Valley, Alberta and Madden, Alberta to be acquired by the Partnership from the General Partner pursuant to the Asset Purchase Agreement;

“**Lateral**” means a new crude oil pipeline that gathers crude oil directly from local crude oil production sites and delivers it directly, or indirectly through existing gathering pipelines, to the System;

“**Limited Partner**” means any Person who is or shall become a limited partner of the Partnership and includes the Initial Limited Partner;

“**Looping**” means the construction of additional pipeline where each end of that additional pipeline connects to an existing System, the purpose of which is to increase the throughput capacity of the System;

“**Mid-Saskatchewan Pipeline System**” means the 334 mile crude oil feeder pipeline and gathering system between Kindersley and Kerrobert, Saskatchewan to be acquired by the Partnership from the General Partner pursuant to the Asset Purchase Agreement;

“**New Assets**” means assets other than the Pipeline Assets, if any, acquired by the Partnership from time to time after closing of the Offering;

“**Non-Competition Agreement**” means the agreement to be entered into between the General Partner and the Partnership pursuant to which the General Partner will agree, on behalf of itself and its Affiliates, to certain restrictions on business activities that may be in competition with the Partnership;

“**Offering**” means the initial offering of Class A Units to the public pursuant to the Prospectus;

**“Operating Cash”** means:

- (a) the aggregate of revenues earned with respect to the operations of the Pipeline Assets and any New Assets, including toll and other revenues associated with the transportation of products through the facilities comprising the Pipeline Assets and any New Assets;  
minus the aggregate of:
- (b) the direct and indirect operating costs incurred in connection with the business and undertaking referred to in (a) or incurred in maintaining the assets or defending title thereto (excluding the costs to a maximum of \$10.0 million of the “smart pigging” inspection and repair program which is the responsibility of Koch pursuant to the Asset Purchase Agreement); plus
- (c) the direct and indirect general and administrative costs incurred in connection with the business and undertaking referred to in (a); plus
- (d) other direct and indirect costs, not included in (b) or (c), incurred in earning the revenues from the sources referred to in (a);

**“Operational Enhancement”** means an improvement to any pipeline system forming part of the System that does not involve the construction of a pipeline Lateral, or an Extension of a pipeline. Without limitation, an Operational Enhancement includes improvements designed to (i) increase throughput capacity of the System by way of Looping existing pipelines and constructing additional pumping facilities or both; (ii) segregate crude oil streams through the construction of, among other things, batch initiation facilities and additional pipelines; (iii) improve System integrity by means such as pigging and Looping; and (iv) improve operational flexibility through the construction of additional storage tanks and injection valves.

**“Ordinary Resolution”** means:

- (a) a resolution approved by more than 50% of the votes cast in person or by proxy at a duly constituted meeting of Unitholders or at any adjournment thereof called in accordance with this Agreement; or
- (b) a written resolution in one or more counterparts signed by Unitholders holding in the aggregate more than 50% of the aggregate number of outstanding Units;

**“Partners”** means the General Partner, the Limited Partners and, as the context requires, the holders of Class B Units and **“Partner”** means any one of them;

**“Partnership”** means Koch Pipelines Canada, L.P., formed under the laws of the Province of Alberta as a limited partnership by the filing of the Certificate under the Act on October 9, 1997;

**“Person”** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

**“Pipeline Assets”** means all of the right, title and interest in the Bow River Pipeline System, Koch Alberta Pipeline System, Mid-Saskatchewan Pipeline System and Koch Valley Pipeline System and certain miscellaneous assets used in connection with the operation of the foregoing pipeline systems owned by Bow River Pipe Lines Ltd., Mid-Saskatchewan Pipe Lines, Ltd., Koch Pipelines Ltd. and Koch Oil Co. Ltd. and to be acquired by the Partnership pursuant to the Asset Purchase Agreement;

**“Prospectus”** means the preliminary and/or final prospectus, as applicable, to be filed by the Partnership with securities regulatory authorities in the provinces of Canada in connection with the Offering;

**“Register”** means the register indicating the names and addresses of the Unitholders and the number of Units held by them, to be kept by the Registrar and Transfer Agent;

**“Registrar and Transfer Agent”** means the registrar and transfer agent of the Units appointed from time to time by the General Partner;

**“Requisitioning Partners”** has the meaning set forth in Section 11.1;

**“Subscription Form”** means a subscription agreement and power of attorney in such form as approved from time to time by the General Partner;

“**Subsidiary**” means, with respect to any Person (a) a body corporate of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such body corporate are owned, directly or indirectly, at the date of determination, by or for the benefit of such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (considering all of the partnership interests of such partnership as a single class) are owned, directly or indirectly, at the date of determination, by or for the benefit of such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a body corporate or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination have (i) at least a majority ownership interest, or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such other Person;

“**Support Agreement**” means the agreement to be dated the date of closing of the Offering pursuant to which Koch will agree to provide the necessary personnel and services to the General Partner to permit the General Partner to fulfill its obligations to administer and manage the Partnership and operate its business under this Agreement.

“**System**” means any pipeline system (or an interest therein) from time to time directly or indirectly forming part of the property of the Partnership, and includes the Bow River Pipeline System, the Koch Alberta Pipeline System, the Mid-Saskatchewan Pipeline System and the Koch Valley Pipeline System;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

“**Transfer Form**” means a transfer and power of attorney in the form appended hereto as Schedule 1 or such other form as approved from time to time by the General Partner;

“**Underwriters**” means RBC Dominion Securities Inc., ScotiaMcLeod Inc. and the other underwriters who may sign the Underwriting Agreement;

“**Underwriting Agreement**” means the underwriting agreement to be entered into among the Partnership, Koch and the Underwriters with respect to the Offering;

“**Unit**” means a Class A Unit and/or a Class B Unit, as the context requires;

“**Unit Certificate**” means a certificate for Units issued in accordance with Section 3.21 in such form as approved by the General Partner from time to time; and a separate form of Unit Certificate shall be utilized for the Class A Units and the Class B Units;

“**Unitholder**” means the holder of a Unit as indicated on the Register.

## **1.2 Headings**

In this Agreement, the headings are for convenience of reference only, do not form a part of this Agreement and are not to be considered in the interpretation of this Agreement.

## **1.3 Interpretation**

In this Agreement,

- (a) words importing the masculine gender include the feminine and neuter genders, corporations, partnerships and other Persons, and words in the singular include the plural, and vice versa, wherever the context requires;
- (b) all references to designated Articles, Sections and other subdivisions are to be designated Articles, Sections and other subdivisions of this Agreement;
- (c) all accounting terms not otherwise defined will have the meanings assigned to them by, and all computations to be made will be made in accordance with, generally accepted accounting principles in Canada from time to time;
- (d) any reference to a statute will include and will be deemed to be a reference to the regulations made pursuant to it, and to all amendments made to the statute and regulations in force from time to time,

and to any statute or regulation that may be passed which has the effect of supplementing or superseding the statute referred to or the relevant regulation;

- (e) any reference to a Person will include and will be deemed to be a reference to any Person that is a successor to that Person;
- (f) business day will be deemed to be a reference to any day which is not a Saturday, Sunday or a day which is generally observed as a holiday in Alberta; and
- (g) “hereof”, “hereto”, “herein”, and “hereunder” mean and refer to this Agreement and not to any particular Article, Section or other subdivision.

#### **1.4 Currency**

All references to currency herein are references to lawful money of Canada.

### **ARTICLE 2**

#### **RELATIONSHIP BETWEEN PARTNERS**

##### **2.1 Formation and Name of Partnership**

The General Partner and the Initial Limited Partner agree to and do hereby form a limited partnership in accordance with the laws of the Province of Alberta and the provisions of this Agreement. The Partnership shall be effective as a limited partnership from the date on which the Certificate is registered in accordance with the Act.

##### **2.2 Name of the Partnership**

The name of the Partnership shall be “Koch Pipelines Canada, L.P.” or such other name or names as the General Partner may from time to time deem appropriate to comply with the laws of the jurisdictions in which the Partnership may carry on business. The General Partner shall have the right to change the name of the Partnership and to file an amendment to the Certificate changing the name of the Partnership. Notwithstanding the foregoing, if Koch Pipelines Canada Ltd. ceases to be the General Partner or if the general partner of the Partnership ceases to be an Affiliate of Koch, then the name of the Partnership shall be changed forthwith to a name which does not include the name “Koch” and the Partnership shall thereafter discontinue the use of and shall have no further rights to use the name “Koch” or any logo, trademark, tradename or service mark related thereto in respect of its business and affairs or otherwise.

##### **2.3 Business of the Partnership**

The business of the Partnership shall be activities which are directly or indirectly related to the transportation, storage, marketing and processing of hydrocarbons whether carried on directly or indirectly through another Person. The Partnership may also engage in such other necessary or related activities as the General Partner deems advisable in order to carry on its business as aforesaid. The Partnership may also acquire and hold ownership interests (i) in another Person where that other Person engages in a business other than as previously described (a “Non-Qualifying Business”), provided that the majority of the assets of such Person are utilized in the conduct of a business which is not a Non-Qualifying Business, and (ii) in assets used in a business other than as previously described (“Non-Qualifying Assets”), provided that such Non-Qualifying Assets are acquired in a transaction or series of related transactions involving the acquisition of assets, the majority of which are used in the conduct of a business which is not a Non-Qualifying Business. If the Partnership acquires a Non-Qualifying Business or Non-Qualifying Assets, the Partnership will use reasonable efforts to dispose of such Non-Qualifying Business or Non-Qualifying Assets, as the case may be, within a reasonable period of time having regard to such considerations as the board of directors of the General Partner may, in its discretion, consider relevant including, without limitation, current and anticipated market conditions for such business or assets. The Partnership shall not carry on any other business than as permitted in this Section 2.3.

##### **2.4 Business in Other Jurisdictions**

- (a) The Partnership shall not carry on business in any jurisdiction unless the General Partner has taken all steps which may be required by the laws of that jurisdiction for the Limited Partners to benefit from limited liability substantially to the same extent that such Limited Partners enjoy limited liability under the Act. The Partnership shall not carry on business in any jurisdiction in which the laws do not

recognize the liability of the Limited Partners to be limited unless, in the opinion of the General Partner, the risks associated with the possible absence of limited liability in such jurisdiction are not significant considering the relevant circumstances.

- (b) The Partnership shall carry on business in such a manner as to ensure, to the greatest extent commercially reasonable, the limited liability of the Limited Partners, and the General Partner shall register the Partnership in other jurisdictions where the General Partner considers it appropriate to do so.

## **2.5 Office of the Partnership**

The principal place of business of the Partnership shall be 1400, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6, or such other address in Alberta as the General Partner may designate in writing from time to time to the Unitholders.

## **2.6 Fiscal Year**

Subject to the General Partner determining otherwise, the first fiscal period of the partnership shall end on December 31, 1997 and thereafter each fiscal period shall commence on January 1 in each year and shall end on the earlier of December 31 in that year or on the date of dissolution or other termination of the Partnership. Each such fiscal period is herein referred to as a “Fiscal Year”.

## **2.7 Status of Partners**

- (a) The General Partner represents, warrants, covenants and agrees with each Limited Partner that the General Partner:
  - (i) is a corporation incorporated under the laws of Alberta and is validly subsisting under such laws;
  - (ii) is not a “non-resident” of Canada for the purposes of the Tax Act;
  - (iii) has the capacity and corporate authority to act as the general partner of the Partnership and to perform its obligations under this Agreement, and such obligations do not conflict with nor do they result in a material breach of any of its constating documents, by-laws or any material agreement by which it is bound;
  - (iv) will not, nor will any Affiliate or Associate of the General Partner, borrow money from the Partnership;
  - (v) will act in good faith in a manner which it reasonably believes to be in, or not opposed to, the best interests of the Partnership, subject to the provisions of this Agreement;
  - (vi) will, on the closing of the Offering, hold and shall maintain the registrations necessary for the conduct of its business and has and shall continue to have all licences and permits necessary to carry on its business as the general partner of the Partnership in all jurisdictions where the activities of the Partnership require such licensing or other form of registration of the General Partner, except where the failure to hold and maintain such registration, license or permit will not have a material adverse effect on the General Partner or the Partnership;
  - (vii) will devote as much time as is reasonably necessary for the conduct and prudent management of the business and affairs of the Partnership; and
  - (viii) from and after the closing of the Offering and for so long thereafter as it is the general partner of the Partnership, its board of directors shall be comprised of not more than seven directors of which not less than three shall be Independent Directors provided that, if Koch and its Affiliates own, directly or indirectly, less than 30% of the issued and outstanding Units, not less than four of its directors shall be Independent Directors.
- (b) Each of the Unitholders severally represents, warrants, covenants and agrees with each other Partner that such Unitholder:
  - (i) has the capacity and competence and, if a corporation, the necessary corporate authority, to enter into this Agreement;
  - (ii) is an Eligible Investor; and

- (iii) shall ensure that its status shall not be modified and such Unitholder shall not transfer its Units, or any beneficial interest therein, in whole or in part to a Person who is not able to make these representations, warranties and covenants.

## **2.8 Survival of Representations, Warranties and Covenants**

The representations, warranties and covenants made pursuant to Section 2.7 shall survive execution of this Agreement and each Partner covenants and agrees to ensure that each representation, warranty and covenant made pursuant to Section 2.7 remains true so long as such Partner remains a Partner.

## **2.9 Evidence of Status and Sale of Affected Units**

Each Unitholder (including the Depository) covenants and agrees that it will, upon request, promptly provide evidence to the General Partner that it and any beneficial owner of Units is an Eligible Investor. In the event that (i) a Unitholder fails to comply with such a request, (ii) satisfactory evidence is not provided by such Unitholder or (iii) the General Partner otherwise determines that a Person has become a Unitholder in contravention of Section 2.7(b)(ii), the General Partner, by written notice (a "Sell Notice") to such Unitholder (the "Affected Partner") may require the Affected Partner to sell to a Person who complies with Section 2.7(b)(ii), the Affected Partner's entire interest in all Units held by the Affected Partner (the "Affected Units") within the period prescribed in the Sell Notice. Any Sell Notice shall be given by prepaid mail or delivered directly to the Affected Partner and shall specify a date, which shall be not less than five business days later, by which the Affected Units must be sold to a Person who complies with Section 2.7(b)(ii). The Sell Notice shall also require the Affected Partner to notify the General Partner of the completion of the sale or disposition requested.

In the event that the Affected Units have not been sold by the Affected Partner on or prior to the date stipulated in the Sell Notice, the General Partner may, subject to compliance with applicable securities laws, elect to sell the Affected Units on behalf of the Affected Partner without further notice in accordance with the terms hereof. The General Partner may sell Affected Units on any stock exchange or organized market on which the Affected Units are then listed or traded as the General Partner shall determine or, if the Affected Units are not then listed on any stock exchange or traded on any organized market, in such other manner as the General Partner shall determine, including purchasing the Affected Units on behalf of the Partnership at their fair market value as determined by an independent investment dealer acting as valuator, selected by the General Partner. For all purposes of such sale, the General Partner shall be deemed to be the agent and lawful attorney of the Affected Partner. The net proceeds of any such sale of Affected Units shall be the net proceeds after deduction of any commissions, taxes or other costs of sale.

In the event of any such sale, an Affected Partner shall have the right only to receive the net proceeds of such sale. The Partnership shall deposit an amount equal to such net proceeds in an account of the Partnership. The amount of such deposit shall be payable to the Affected Partner upon presentation of evidence acceptable to the General Partner of such person's interest in the Affected Units, including the Unit Certificate or Certificates therefor, if any. Any interest earned on any amount so deposited, net of any applicable taxes, shall accrue to the benefit of the Affected Partner.

From and after the date of such deposit, the Affected Partner shall not be entitled to any of the rights hereunder in respect of the Affected Units, other than the right to receive the funds so deposited as provided herein and any person who was a beneficial owner of such Affected Units shall not be entitled to any beneficial interest in such Affected Units.

The General Partner shall, as soon as reasonably practical, and in any event, not later than 30 days after making a deposit pursuant to the terms of this Section 2.9, send a notice to the Affected Partner stating that the Affected Units have been sold, the amount of the net proceeds to which the Affected Partner is entitled, the name and address of the bank or trust company at which the Partnership has made the deposit (which account may also contain funds of the Partnership) and all other relevant particulars of the sale.

For greater certainty, the General Partner may sell Units in accordance with the terms hereof despite the fact that the Partnership does not possess the Unit Certificate or Certificates representing the Affected Units at the time of the sale. Where, in accordance with this Section 2.9, Affected Units are sold by the General Partner without possession of the Unit Certificate or Certificates (if any), representing the same and, after the sale, a Person

establishes that it is a *bona fide* purchaser of the Affected Units from the Affected Partner, then, subject to applicable law:

- (a) the Partnership shall be entitled to treat the Units so purchased by the *bona fide* purchaser as validly issued and outstanding Units in addition to the Affected Units sold by the General Partner; and
- (b) notwithstanding anything herein contained, the Partnership shall be entitled to the deposit made with respect to the sale of the Affected Units, together with any accrued interest thereon, and shall consider such amount a Capital Contribution applicable to the Units acquired by the Person to whom the General Partner sold the Units.

The General Partner shall have the sole right and authority to make any determination required or contemplated under this Section 2.9. The General Partner shall make on a timely basis all determinations necessary for the administration of the provisions of this Section 2.9 and, without limiting the generality of the foregoing, if the General Partner considers that there are reasonable grounds for believing that a contravention of the ownership restrictions contained in paragraph 2.7(b)(ii) has occurred or will occur, the General Partner shall make a determination with respect to the matter. Any such determination shall be conclusive, final and binding except to the extent modified by any subsequent determination by the General Partner.

Notwithstanding anything contained herein, in the event that the General Partner determines that a Person has become a Unitholder in contravention of Section 2.7(b)(ii), such Person shall be deemed to have ceased to be a Unitholder in respect of the Units held by him or her effective immediately prior to the date of contravention and shall not be entitled to any distributions of Distributable Cash and such Units shall be deemed not to be outstanding until acquired by a Person who complies with Section 2.7(b)(ii); provided that other holders of Units shall not be entitled to any portion of Distributable Cash paid in respect of Units that have been so deemed not to be outstanding.

## **2.10 Limitation on Authority of Limited Partners**

No Limited Partner shall, except in his or her capacity as an officer, director, agent or employee of the General Partner or an Affiliate thereof (and then only in connection with Sections 2.10(a) through (d)):

- (a) take part in the administration, control, management or operation of the business of the Partnership or exercise any power in connection therewith or transact business on behalf of the Partnership;
- (b) execute any document which binds or purports to bind any other Partner or the Partnership;
- (c) hold himself or herself out as having the power or authority to bind any other Partner or the Partnership;
- (d) have any authority or power to act for or undertake any obligation or responsibility on behalf of any other Partner or the Partnership;
- (e) bring any action for partition or sale or otherwise in connection with the Partnership or any interest in any property of the Partnership, whether real or personal, tangible or intangible, or file or register or permit to be filed, registered or remain undischarged any lien or charge in respect of any property of the Partnership; or
- (f) compel or seek a partition, judicial or otherwise, of any of the assets of the Partnership distributed or to be distributed to the Partners in kind in accordance with this Agreement.

Notwithstanding the foregoing, the General Partner and holders of Class B Units, in respect of their respective ownership of Units, shall not be subject to the restrictions that otherwise apply to Limited Partners.

## **2.11 Power of Attorney**

Each Unitholder hereby irrevocably nominates, constitutes and appoints the General Partner, with full power of substitution, as the Unitholder's agent and true and lawful attorney to act on the Unitholder's behalf with full power and authority in the Unitholder's name, place and stead to execute and record or file as and where required and where applicable:

- (a) this Agreement, any amendment to this Agreement and any other instruments or documents required to continue and keep in good standing the Partnership as a limited partnership under the Act, or otherwise to comply with the laws of any jurisdiction in which the Partnership may carry on business or own or lease property in order to maintain the limited liability of the Limited Partners and to comply with the

applicable laws of such jurisdiction (including such amendments to the Certificate or the Register as may be necessary to reflect the admission to the Partnership of subscribers for or transferees of Units as contemplated by this Agreement);

- (b) all instruments and any amendments to the Certificate necessary to reflect any amendment to this Agreement;
- (c) any instrument required in connection with the dissolution and termination of the Partnership in accordance with the provisions of this Agreement, including any elections, determinations or designations under the Tax Act and under any similar legislation;
- (d) the documents necessary to be filed with the appropriate governmental body or authority in connection with the business, property, assets and undertaking of the Partnership;
- (e) such documents as may be necessary to give effect to the business of the Partnership as described in Section 2.3;
- (f) the documents on the Unitholder's behalf and in the Unitholder's name as may be necessary to give effect to the sale or assignment of a Unit (including a sale of Units pursuant to Section 2.9 or Section 4.8) or to give effect to the admission of a subscriber or transferee of Units to the Partnership;
- (g) any election, determination, designation, information return or similar document or instrument as may be required at any time under the Tax Act or under any other taxation legislation or laws of like import of Canada or of any province, territory or jurisdiction which relates to the affairs of the Partnership or the interest of any Person in the Partnership;
- (h) documents required to transfer Units of a Limited Partner who is a Dissenting Unitholder, as provided in Section 3.22(g); and
- (i) all other instruments and documents on the Unitholder's behalf and in the Unitholder's name or in the name of the Partnership as may be deemed necessary by the General Partner to carry out fully this Agreement in accordance with its terms.

To evidence the foregoing, each Subscription Form shall contain a power of attorney incorporating by reference, ratifying and confirming some or all of the powers set forth above.

The power of attorney granted herein is irrevocable, is a power coupled with an interest, shall survive the death or disability of a Unitholder and shall survive the transfer or assignment by the Unitholder, to the extent of the obligations of a Unitholder hereunder, of the whole or any part of the interest of the Unitholder in the Partnership, extends to the heirs, executors, administrators, other legal representatives and successors, transferees and assigns of the Unitholder, and may be exercised by the General Partner on behalf of each Unitholder in executing any instrument by a facsimile signature or by listing all the Unitholders and executing such instrument with a single signature as attorney and agent for all of them. Each Unitholder agrees to be bound by any representations or actions made or taken by the General Partner pursuant to this power of attorney and hereby waives any and all defences which may be available to contest, negate or disaffirm the action of the General Partner taken in good faith under this power of attorney. In accordance with the *Powers of Attorney Act* (Alberta), the *Powers of Attorney Act* (Ontario), the *Power of Attorney Act* (British Columbia), *The Powers of Attorney Act, 1996* (Saskatchewan), *The Powers of Attorney and Mental Health Amendment Act* (Manitoba), the *Powers of Attorney Act* (Nova Scotia), the *Powers of Attorney Act* (Prince Edward Island) and the *Enduring Powers of Attorney Act* (Newfoundland), each Unitholder declares that these powers of attorney may be exercised during any legal incapacity or mental infirmity on the Unitholder's part. The General Partner may require, in connection with the subscription for, or any transfer of, Units, that the Subscription Form or other instrument, if any, be accompanied by the explanatory notes set out in the *Powers of Attorney Act* (Alberta) and a certificate of legal advice signed by a lawyer who is not the attorney or the attorney's spouse, or that the execution of the Subscription Form or Transfer Form be witnessed as required by *The Powers of Attorney and Mental Health Amendment Act* (Manitoba).

This power of attorney shall continue in respect of the General Partner so long as it is the general partner of the Partnership, and shall terminate thereafter, but shall continue in respect of a new general partner as if the new general partner were the original attorney.

A transferee of a Unit shall, upon becoming a Unitholder, be conclusively deemed to have acknowledged and agreed to be bound by the provisions of this Agreement as a Unitholder and shall be conclusively deemed to have provided the General Partner with the power of attorney described in this Section 2.11.

## **2.12 Limited Liability of Limited Partners**

Subject to the provisions of the Act and of similar legislation in other jurisdictions, the liability of each Limited Partner for the debts, liabilities and obligations of the Partnership shall be limited to the Limited Partner's Capital Contribution, plus the Limited Partner's *pro rata* share of any undistributed income of the Partnership. Where Limited Partners have received the return of all or part of their Capital Contribution, except where the Capital Contribution is reduced in accordance with Section 7.2 hereof, or where the Partnership is dissolved, the Limited Partners shall be liable to the Partnership's creditors for any amount, not in excess of the amount returned with interest, necessary to discharge the liabilities of the Partnership to all creditors who extended credit or whose claims otherwise arose before the return of the Capital Contribution. Following payment of a Capital Contribution with interest, a Limited Partner shall not be liable for any further claims or assessments or be required to make further contributions to the Partnership.

## **2.13 Indemnity of Limited Partners**

The General Partner will indemnify and hold harmless each Limited Partner (including former Limited Partners) for all costs, expenses, damages or liabilities suffered or incurred by the Limited Partner if the limited liability of such Limited Partner is lost for or by reason of the negligence of the General Partner in performing its duties and obligations hereunder.

## **2.14 Compliance with Laws**

Each Unitholder will, on the request of the General Partner from time to time, immediately execute any documents considered by the General Partner to be necessary to comply with any applicable law or regulation of any jurisdiction, for the continuation, operation or good standing of the Partnership.

## **2.15 Other Activities of General Partner**

Affiliates of the General Partner (including Koch) may engage in businesses, ventures, investments and activities which may be similar to or competitive with those in which the Partnership is or might be engaged and neither the General Partner nor any such Affiliate shall be required to offer or make available to the Partnership any other business or investment opportunity which the General Partner or any such Affiliate may acquire or be engaged in for its own account, except as expressly contemplated herein or in the Non-Competition Agreement. It shall not be a breach of the fiduciary duty owed by the General Partner to the Partnership if the General Partner or an Affiliate thereof takes advantage of any opportunity in preference to the Partnership, except as expressly contemplated herein and in the Non-Competition Agreement.

## **2.16 General Partner May Hold Units**

The General Partner may subscribe for and acquire Units or purchase Units by private contract or in the market and shall be shown on the Register as a Unitholder in respect of the number of Units held by the General Partner from time to time. It is acknowledged that the General Partner will purchase Class B Units from the Partnership pursuant to the Asset Purchase Agreement.

## **2.17 General Partner as a Unitholder**

If the General Partner holds any Units, it shall be deemed in its capacity as the holder of such Units to be a Unitholder with the same rights and powers and subject to the same restrictions as each other Unitholder.

# **ARTICLE 3**

## **UNITS**

### **3.1 Authorized Units**

The Partnership is authorized to issue an unlimited number of Class A Units and an unlimited number of Class B Units with the rights, privileges, restrictions and conditions referred to herein. Except as otherwise provided

in this Agreement, no Unitholder will, in respect of any Unit held by such Unitholder, have any preference, priority or right in any circumstance over any other Unitholder in respect of any Unit held by any other Unitholder.

### **3.2 Certain Features of Class B Units**

Holders of Class B Units will not be limited partners of the Partnership and will accordingly not have the benefit of limited liability. Holders of Class B Units will have unlimited liability for the debts, liabilities and obligations of the Partnership.

Class B Units may only be issued to Koch. Class B Units will be automatically converted into Class A Units, on the basis of one Class A Unit for each Class B Unit immediately following the time such Class B Units cease to be held by Koch subject, in the case of a transfer of Class B Units to a successor general partner of the Partnership, to the requirement that the successor general partner shall hold Class B Units representing not less than 0.1% of the total number of Units outstanding. The Class B Units will also be convertible into Class A Units on the same basis as set forth above at the option of Koch in the event Koch Pipelines Canada Ltd. or its Affiliate ceases to be general partner of the Partnership. Upon such conversion, which shall be effected by delivery of a notice in writing to the General Partner indicating the number of Class B Units to be converted and accompanied by the Unit Certificate for such Class B Units, the holder of a Unit Certificate representing Class B Units shall be entitled to a new Unit Certificate representing the number of Class A Units into which such Class B Units have been converted, and a new certificate representing any Class B Units not so converted.

### **3.3 Terms of Offering(s)**

The General Partner may, in its discretion, determine the terms and conditions of the offering and sale of the Units from time to time hereafter and may do all things in that regard including preparing and filing prospectuses, offering memoranda and other documents, paying the expenses of issue and entering into agreements with any Person providing for a commission or fee. For greater certainty, the General Partner may take all steps necessary to give effect to the Offering, including filing the Prospectus, entering into the Underwriting Agreement on behalf of the Partnership, issuing Class A Units pursuant to the Underwriting Agreement and issuing Class B Units in accordance with the Asset Purchase Agreement.

Any issue of Units shall be first offered to the General Partner which may acquire or cause an Affiliate to acquire the Units to which the General Partner is entitled, as nearly may be in proportion to the number of Units held, directly or indirectly, by the General Partner and its Affiliates at the date of the issue.

### **3.4 Subscription for Units**

No subscription may be made or shall be accepted for a fraction of a Unit. In connection with an offering under a prospectus (including the Prospectus), each subscribing Person (who may be underwriters who have agreed to underwrite the offering) shall complete and execute the applicable Subscription Form setting forth, among other things, the total subscription price for the Units subscribed for, which subscription price shall be such Person's agreed upon Capital Contribution.

The subscription price for the Class A Units pursuant to the Offering shall be determined by negotiation among Koch, the General Partner and the Underwriters and shall be as provided in the Underwriting Agreement. The subscription price for the Class B Units pursuant to the Asset Purchase Agreement shall be as set forth in such agreement. Thereafter, the subscription price for any issuance of Units will be determined by the General Partner, acting alone or in consultation with other Persons (who may include Koch).

### **3.5 Acceptance of Subscription Form by General Partner**

The General Partner shall have the right, in its sole discretion, to refuse to accept a Subscription Form. The General Partner shall also have the right to reject Subscription Forms submitted by a subscriber who is not an Eligible Investor, and the General Partner may require subscribers to provide evidence satisfactory to it that such subscribers, or Persons who will have a beneficial interest in Units being subscribed for, are Eligible Investors. If, for any reason, a Subscription Form is not accepted, the General Partner shall forthwith redeliver to the subscriber the Subscription Form and any subscription monies or cheques representing subscription monies for such Units without interest or deduction.

### **3.6 Admittance as Unitholder**

Upon acceptance by the General Partner of any Subscription Form, all Partners will be deemed to consent to the admission of the subscriber as a Unitholder, the General Partner will execute this Agreement on behalf of the subscriber and will cause the Register and the Certificate to be amended, and such other documents as may be required by the Act or under legislation similar to the Act in other provinces or the territories to be filed or amended, specifying the prescribed information and will cause the foregoing information in respect of the new Unitholder to be included in the Partnership's books and records.

### **3.7 Payment of Expenses**

The Partnership will pay, to the extent contemplated by any prospectus (including the Prospectus) or other offering document, all costs, disbursements and other fees and expenses incurred in connection with the offering of Units pursuant to such prospectus or other offering document, the organization of the Partnership and the registration of the Partnership under the Act and under similar legislation of other jurisdictions. Such costs may include underwriting or agency fees, including the fees to be paid to the Underwriters under the Underwriting Agreement.

### **3.8 Effective Date**

The rights and obligations of a subscriber for, or a transferee of, Units, as a Unitholder, under this Agreement, commence and are enforceable by and upon the Unitholder as between the Unitholder and the other Partners from the date on which both the Register and the Certificate have been amended to reflect such subscription or transfer as it is necessary that the Certificate be amended under the Act adding such Unitholder as a Unitholder of the Partnership, a subscriber or a transferee will not become a Unitholder until the Certificate is amended.

### **3.9 Register of Unitholders**

The Registrar and Transfer Agent shall maintain at each office at which transfers may be recorded, a Register listing all names and addresses of registered Unitholders and the number of Units held by them.

### **3.10 Changes in Membership of Partnership**

Subject to Section 3.17, no change of name or address of a Unitholder, no transfer of a Unit and no admission of a substituted Unitholder in the Partnership shall be effective for the purposes of this Agreement until all reasonable requirements as determined by the General Partner with respect thereto have been met, including the requirements set out in this Article, and until such change, transfer, substitution or addition is duly reflected in an amendment to the Register and in an amendment to the Certificate as may be required by the Act. The names and addresses of the Unitholders as reflected from time to time in the Certificate, as from time to time amended, shall be conclusive as to such facts for all purposes of the Partnership.

### **3.11 Notice of Change**

No name or address of a Unitholder shall be changed and no transfer of a Unit or substitution or addition of a Unitholder in the Partnership shall be recorded on the Register or reflected in an amendment to the Certificate except pursuant to a notice in writing received by the General Partner or the Register and Transfer Agent.

### **3.12 Inspection of Record**

A Unitholder, or an agent of a Unitholder duly authorized in writing, has the right to inspect and make copies from the Register at the cost of the Unitholder during normal business hours.

### **3.13 Transfer of Units**

Subject to the provisions of this Section 3.13 and Sections 2.7(b), 3.10, 3.11, 3.14, 3.15, 3.16, 3.17, 3.18, 3.19 and 3.20 and compliance with applicable securities laws and the payment by the transferee of an administration fee, if any, of up to \$100, Units may be transferred by a Unitholder or the Unitholder's agent duly authorized in writing to any Person, but such Person shall not be recorded on the Register as the holder of Units nor, if such Person is not a Unitholder, be entitled to become a Unitholder and thereby reflected in an amendment to the Certificate, unless

such Person has delivered to the General Partner or to the Registrar and Transfer Agent a Transfer Form completed and executed in a manner acceptable to the General Partner.

The General Partner has the right to deny the transfer of Units in respect of which there has been default in payment of the subscription price until all amounts required to be paid on account of the subscription price, including any interest thereon, have been paid in full. The General Partner will deny the transfer of the Units to a Person who is not an Eligible Investor. No transferee will become a Unitholder until all filings and recordings required by the Act and this Agreement have been duly made. Where the transferee complies with the provisions aforesaid and is entitled to become a Unitholder pursuant to the provisions hereof, subject to Section 3.10, the General Partner shall be authorized to admit the transferee to the Partnership as a Unitholder and the Unitholders hereby consent to the admission of, and will admit, the transferee to the Partnership as a Unitholder, without further act of the Unitholders (other than as may be required by law).

### **3.14 Transfer Form**

The Transfer Form shall be in the form of Schedule 1 or other form approved by the General Partner and shall be signed by the transferor (whose endorsement thereon shall be guaranteed by a Canadian chartered bank, a trust company qualified to carry on business in a Province of Canada, a member of The Investment Dealers Association of Canada or a member of the Toronto or Alberta stock exchanges) and by the transferee (whose endorsement shall also be guaranteed) and shall be accompanied by the Unit Certificate(s) if any, issued by the Partnership representing the Units to be transferred.

### **3.15 Documentation on Transfer**

If a transferor of Units is a firm or a corporation, or purports to assign such Units in any representative capacity, or if an assignment results from the death, mental incapacity or bankruptcy of a Unitholder or is otherwise involuntary, the transferor or the transferor's legal representative shall furnish to the General Partner (or to the Registrar and Transfer Agent on its behalf) such documents, certificates, assurances, court orders and other instruments as the General Partner or the Registrar and Transfer Agent, as applicable, may reasonably require to effect the said transfer and assignment.

### **3.16 Amendment of Certificate and Register**

The General Partner, on behalf of the Partnership, shall from time to time and, in any event, or shall cause the Registrar and Transfer Agent, as applicable, to promptly effect filings, recordings, registrations and amendments to the Register and the Certificate and to such other documents and at such places as in the opinion of counsel to the Partnership are necessary or advisable to reflect changes in the membership of the Partnership, transfers of Units and dissolution of the Partnership as herein provided and to constitute a transferee as a Unitholder. The General Partner shall cause the Certificate to be amended as at the end of each calendar quarter, if necessary, to reflect changes in Unitholders during the course of such quarter or, in the event that there is an increase in the frequency of distributions of Distributable Cash, at the end of each period for which Distributable Cash is determined.

### **3.17 Non-Recognition of Trusts or Beneficial Interests**

Except as provided herein, as required by law or as recognized by the General Partner in its sole discretion, no Person will be recognized by the Partnership or a Unitholder as holding any Unit in trust, or on behalf of another Person with the beneficial interest therein, and the Partnership and Unitholders will not be bound or compelled in any way to recognize (even when having actual notice) any equitable, contingent, future or partial interest in any Unit or in any fractional part of a Unit or any other rights in respect of any Unit except an absolute right to the entirety of the Unit in the Unitholder shown on the Certificate as holder of such Unit.

### **3.18 Incapacity, Death, Insolvency or Bankruptcy**

Where a Person becomes entitled to Units on the incapacity, death, insolvency, or bankruptcy of a Unitholder, or otherwise by operation of law, in addition to the requirements of Sections 2.7(b), 3.10, 3.11, 3.13,

3.14 and 3.15 such entitlement will not be recognized or entered into the Register and recorded in a Certificate until such Person:

- (a) has produced evidence satisfactory to the General Partner (or the Registrar and Transfer Agent on its behalf) of such entitlement;
- (b) has agreed in writing to be bound by the terms of this Agreement and to assume the obligations of a Unitholder under this Agreement; and
- (c) has delivered such other evidence, approvals and consents in respect to such entitlement as the General Partner (or the Registrar or Transfer Agent on its behalf) may require or as may be required by law or by this Agreement.

### **3.19 No Transfer of Fractions**

No transfer of a fraction of a Unit may be made or will be recognized or entered into or recorded in the Register or recorded in a Certificate.

### **3.20 No Transfer upon Dissolution**

No transfer of Units may be made or will be recognized or entered into or recorded in the Register or recorded in a Certificate after the occurrence of any of the events set forth in Section 13.1.

### **3.21 Unit Certificates**

The General Partner shall issue to each Unitholder, upon request, a Unit Certificate indicating that the holder thereof is the owner of the number of Units set out thereon. Every Unit Certificate must be signed by a least one officer or director of the General Partner, and by at least one authorized signing officer of the Registrar and Transfer Agent, but any signature other than that of the authorized signing officer of the Registrar and Transfer Agent appearing thereon may be mechanically reproduced, and the validity of a Unit Certificate will not be affected by the circumstance that a person whose signature is so reproduced is deceased or no longer holds the office which he or she held when the reproduction of his or her signature in that office was authorized. A Unit Certificate may be sent through the mail by registered prepaid mail or delivered to a dealer acting on behalf of the Unitholder and none of the General Partner, the Partnership or the Registrar and Transfer Agent will be liable for any loss by a Unitholder that results from the loss of a Unit Certificate by reason that it is so sent. If any Unit Certificate is lost, mutilated, stolen or destroyed, the Registrar and Transfer Agent shall, upon request by a Unitholder, issue a replacement Unit Certificate to the Unitholder upon receipt of evidence satisfactory to the Registrar and Transfer Agent of such loss, mutilation or destruction, and upon receiving such indemnification (including an indemnity bond provided at the expense of the Unitholder) as it deems appropriate in the circumstances. The General Partner upon request by the transferee, shall issue a new Unit Certificate for any Units transferred in accordance with the terms of this Agreement. In the case of a transfer of less than all of the Units represented by a Unit Certificate, the General Partner, upon request by the transferor, shall issue a new Unit Certificate for the balance of the Units retained by the transferor.

### **3.22 Offers for Class A Units**

- (a) In this Section 3.22:
  - (i) **“Dissenting Unitholder”** means a Unitholder who does not accept an Offer referred to in Section 3.22(b);
  - (ii) **“Offer”** means an offer to acquire outstanding Class A Units, where, as of the date of the offer to acquire, the Class A Units that are subject to the offer to acquire, together with the Offeror’s Units, constitute in the aggregate 20% or more of all outstanding Class A Units;
  - (iii) **“offer to acquire”** includes an acceptance of an offer to sell;
  - (iv) **“Offeror”** means a Person, or two or more Persons acting jointly or in concert, who make an offer to acquire Class A Units;
  - (v) **“Offeror’s Notice”** means the notice described in Section 3.22(c);

- (vi) **“Offeror’s Units”** means Class A Units beneficially owned, or over which control or direction is exercised, on the date of an Offer by the Offeror, any Affiliate or Associate of the Offeror or any Person acting jointly or in concert with the Offeror; and
- (vii) **“Unitholder”** means a holder of Class A Units.
- (b) If an Offer for all of the outstanding Class A Units (other than Class A Units held by or on behalf of the Offeror or an Affiliate of the Offeror) is made and:
  - (i) within the time provided in the Offer for its acceptance or within 45 days after the date the Offer is made, whichever period is the shorter, the number of Units held by the Offeror, together with the number of Class A Units held by Unitholders who have accepted the Offer, is equal to at least 90% of the outstanding Units;
  - (ii) the Offeror is bound to take up and pay for, or has taken up and paid for the Class A Units of the Unitholders who accepted the Offer; and
  - (iii) the Offeror complies with Sections 3.22(c) and (e);

the Offeror is entitled to acquire, and the Dissenting Unitholders are required to sell to the Offeror, the Class A Units held by the Dissenting Unitholders for the same consideration per Unit payable or paid, as the case may be, under the Offer.

- (c) Where an Offeror is entitled to acquire Class A Units held by Dissenting Unitholders pursuant to Section 3.22(b), and the Offeror wishes to exercise such right, the Offeror shall send by registered mail within 30 days after the date of expiry of the Offer a notice (the “Offeror’s Notice”) to each Dissenting Unitholder stating that:
  - (i) the number of Units held by the Offeror, together with the number of Class A Units held by Unitholders who have accepted the Offer, is equal to at least 90% of the outstanding Units;
  - (ii) the Offeror is bound to take up and pay for, or has taken up and paid for, the Class A Units of the Unitholders who accepted the Offer;
  - (iii) Dissenting Unitholders must transfer their respective Units to the Offeror on the terms on which the Offeror acquired the Units of the Unitholders who accepted the Offer within 21 days after the date of the sending of the Offeror’s Notice; and
  - (iv) Dissenting Unitholders must send their respective Unit Certificate(s) for Class A Units to the General Partner within 21 days after the date of the sending of the Offeror’s Notice.
- (d) A Dissenting Unitholder to whom an Offeror’s Notice is sent pursuant to Section 3.22(c) shall, within 21 days after the sending of the Offeror’s Notice, send his or her Unit Certificate(s) for Class A Units to the General Partner, duly endorsed for transfer with signature guaranteed as provided in Section 3.14.
- (e) Within 21 days after the Offeror sends an Offeror’s Notice pursuant to Section 3.22(c), the Offeror shall pay or transfer to the General Partner, or to such other Person as the General Partner may direct, the cash or other consideration that is payable to Dissenting Unitholders pursuant to Section 3.22(b).
- (f) The General Partner, or the Person directed by the General Partner, shall hold in trust for the Dissenting Unitholders the cash or other consideration it receives under Section 3.22(e). The General Partner, or such Person, shall deposit cash in a separate account in a Canadian chartered bank and shall place other consideration in the custody of a Canadian chartered bank or similar institution for safekeeping.
- (g) Within 30 days after the date of the sending of an Offeror’s Notice pursuant to Section 3.22(c), the General Partner, if the Offeror has complied with Section 3.22(e), shall:
  - (i) do all acts and things and execute and cause to be executed all instruments as in the General Partner’s opinion may be necessary or desirable to cause the transfer of the Class A Units of the Dissenting Unitholders to the Offeror;
  - (ii) send to each Dissenting Unitholder who has complied with Section 3.22(d) the consideration to which such Dissenting Unitholder is entitled under this Section 3.22;

(iii) send to each Dissenting Unitholder who has not complied with Section 3.22(d) a notice stating that:

- (A) the Dissenting Unitholder's Class A Units have been transferred to the Offeror;
- (B) the General Partner or some other Person designated in such notice is holding in trust the consideration for the transfer of such Class A Units to the Offeror; and
- (C) the General Partner, or such other Person, will send the consideration to such Dissenting Unitholder as soon as practicable after receiving Unit Certificate(s) from such Dissenting Unitholders or such other documents as the General Partner, or such other Person may require in lieu thereof;

and the General Partner is hereby appointed the agent and attorney of the Dissenting Unitholders for the purposes of giving effect to the foregoing provisions.

- (h) An Offeror shall not be entitled to rely on the provisions of this Section 3.22 unless, concurrent with the communication of the Offer to any Unitholder, a copy of the Offer is provided to the General Partner.

## ARTICLE 4

### CAPITAL CONTRIBUTIONS AND ACCOUNTS

#### **4.1 Capital**

The capital of the Partnership consists of the aggregate of all sums of money or other property contributed by the Partners and not returned to them.

#### **4.2 General Partner Contribution**

The General Partner is not required to make a Capital Contribution to the capital of the Partnership, provided that from and after closing of the Offering, the General Partner shall be required to own that number of Class B Units that represent at least 0.1% of the outstanding Units.

#### **4.3 Initial Limited Partner Contribution**

The Initial Limited Partner has contributed the sum of \$10 as a Capital Contribution to the Partnership in exchange for one (1) Class A Unit, which Unit will be repurchased by the Partnership upon Closing and thereafter cancelled. The General Partner confirms that the Initial Limited Partner need not provide a Subscription Form in connection with such acquisition of Class A Units.

#### **4.4 Unitholder Contributions**

The Capital Contribution of each Unitholder is the subscription price for Class A Units or Class B Units, as applicable, paid by the Unitholder. In respect of the Class A Units offered under the Prospectus, it is acknowledged that the Capital Contribution shall consist of the aggregate of: (a) \$6.00, payable on closing of the Offering; and (b) \$4.00, which is due and payable to the Partnership at any office where the Registrar and Transfer Agent maintains a Register and at any time on or before 5:00 p.m. local time at the place of payment on the date one (1) year following closing of the Offering.

#### **4.5 Separate Capital Accounts**

Each Partner shall have a separate capital account (any balance of which will not represent the Capital Contribution of the Partner) which will, on receipt of an amount in respect of a Capital Contribution, be credited with such Capital Contribution and which will be debited with the amount of any Capital Contribution withdrawn or returned from time to time by the Partnership to the Partner. Upon any conversion of Class B Units into Class A Units as provided for in Section 3.2, the capital account of the former holder of the Class B Units in respect of such Class B Units shall be equal to the capital account maintained in respect of the Class A Units resulting from such conversion.

The interest of a Partner will not terminate by reason of there being a negative or nil balance in the Partner's capital account. No Unitholder shall be responsible for any losses of any other Unitholder, nor share in the allocation of Distributable Cash, income or loss attributable to the Units of any other Unitholder.

#### **4.6 No Interest on Capital Account**

The Partnership will not pay interest on any credit balance of the capital account of a Partner. Except as provided in this Agreement or the Act or similar applicable legislation in Canada, no Unitholder is required to pay interest to the Partnership on any Capital Contribution returned to the Limited Partner or on any negative balance in the Unitholder's capital account.

#### **4.7 Unpaid Capital Contributions**

Subject, in the case of the Class A Units offered under the Prospectus, to the provisions of the Instalment Receipt Agreement (as defined in the Prospectus), if any portion of the Capital Contribution for a Unit or Units is unpaid when due and owing, the General Partner will give 15 days' notice or such other notice as required by applicable law to the holder of such Unit or Units to pay such amount as remains unpaid on account of the Capital Contribution and if such amount is not paid within such notice period, the unpaid portion of the Capital Contribution of such Unit or Units and of every other Unit held by such holder will be immediately due and owing and the General Partner may commence foreclosure proceedings in compliance with applicable laws in respect of all such Units or the General Partner may sell such Units in accordance with this Article 4 and applicable laws.

Notwithstanding Article 12 hereof, notice given under this Section 4.7 shall be given by registered mail and shall be deemed to be received and shall be effective on the third business day following deposit of such notice in the mail.

#### **4.8 Sale of Units in Default**

Subject to compliance with applicable laws, the General Partner may, on behalf of the Partnership, sell on such terms and conditions as the General Partner deems appropriate, any Unit in respect of which payment of Capital Contribution is in default and in respect of which 15 days have elapsed since the effective date of the notice given by the General Partner pursuant to Section 4.7 and apply the proceeds of sale:

- (a) first, toward the costs of sale (including commissions, if any);
- (b) second, toward payment of interest on the unpaid portion of the Capital Contribution; and
- (c) third, toward payment of the unpaid portion of the Capital Contribution.

Any surplus will be payable to the former holder of such Units.

#### **4.9 Failure to Give Notice**

Any failure to give, or delay in giving, notice of default to a Unitholder will not affect the liability of such Unitholder for payment of the Capital Contribution of the Unit in default or for payment of the Capital Contribution for any other Unit held by such holder.

#### **4.10 Restriction on Transfer**

If a Unitholder is in default in payment of the Capital Contribution, the Unit in respect of which payment is in default and any other Unit held by such Unitholder may not thereafter be transferred (except pursuant to Sections 4.7 and 4.8) until the portion of the Capital Contribution which is due and owing and any interest accrued in respect of that Unit has been paid in full.

#### **4.11 Interest on Amounts in Default**

A Unitholder liable for a portion of the Capital Contribution for Units which is not paid when due and owing is liable, in addition, to pay interest on so much of the Capital Contribution as from time to time remains unpaid, accruing from the due date to the date of payment at an annual rate of interest equal to the rate announced from time to time by a Canadian chartered bank selected by the General Partner as its reference rate for determining the interest rates charged by it on Canadian dollar commercial loans to its most creditworthy customers prevailing from time to time while the Capital Contribution is unpaid, plus 6%, calculated and compounded monthly. All payments on account of a Capital Contribution which is due and owing or interest thereon, however directed, will be applied first towards the cost of the General Partner in collecting such amounts or selling the Units, secondly towards interest and thirdly towards satisfaction of the unpaid portion of the Capital Contribution.

#### **4.12 Set-Off**

The Partnership may set-off against and withhold from any amount that would otherwise be distributed to a Partner, any amount that may be due and owing to the Partnership on account of any unpaid portion of the Capital Contribution of such Partner and interest accrued thereon.

#### **4.13 Liability for Deficiency**

The sale of a Unit pursuant to Section 4.8 and the application of the proceeds as therein provided will not, if a deficiency remains after the sale, extinguish the liability of the former holder of such Unit for any amount that may remain unsatisfied or for the interest which will continue to accrue thereon.

### **ARTICLE 5**

#### **PARTICIPATION IN PROFITS AND LOSSES**

##### **5.1 Allocation of Income and Loss**

The net income or loss of the Partnership for accounting purposes for the fiscal period from the date of the formation of the Partnership to the day of closing of the Offering, after deducting the amounts referred to in the first paragraph of Section 6.1, shall be allocated among the Partners as follows:

- (a) the General Partner shall be allocated 99.99% of the net income or loss of the Partnership; and
- (b) the balance of the net income or loss shall be allocated to the Initial Limited Partner.

On the day of closing of the Offering, the entitlement of the General Partner to an allocation of 99.99% of the income or loss of the Partnership shall terminate, in consideration of the amount of \$100 to be paid by the Partnership to the General Partner.

From and after the day of closing of the Offering, the income for tax purposes of the Partnership for a given fiscal year of the Partnership will be allocated to each Unitholder in an amount calculated by multiplying such income by a fraction, the numerator of which is the sum of the cash distributions received by such Unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of the cash distributions made by the Partnership with respect to such fiscal year.

If, with respect to a given fiscal year no cash distribution is made by the Partnership to its Partners or the Partnership has a loss for tax purposes, one quarter of the income, or loss, as the case may be, for tax purposes of the Partnership for such fiscal year will be allocated to the Partners of record at the end of each calendar quarter ending in such fiscal year, in the proportion that the number of Units held at each such date by a Unitholder is of the total number of Units issued and outstanding at each such date provided that with respect to the first fiscal year of the Partnership no amounts will be allocated to Partners of record as of the calendar quarters ending prior to the Closing Date and the denominator of the fraction one quarter as referred to above will be that number of calendar quarters in that first fiscal period ending after the Closing Date.

The amount of income or loss allocated to a Unitholder may exceed or be less than the amount of cash distributed to such Unitholder.

Any other amounts allocable for purposes of the Tax Act will be allocated to each Partner of record as at the end of each quarter in the proportion that the number of Units held by a Partner is of the total number of Units issued and outstanding at such date.

##### **5.2 Distributable Cash**

For the period from the date of formation of the Partnership to the day of closing of the Offering, the General Partner shall distribute to the General Partner and to the Initial Limited Partner in the same proportions as the allocation required by Section 5.1, the amount of all Distributable Cash in respect of that period. Such distribution will be made on or before the end of the month following the month in which the day of closing of the Offering occurs.

In respect of calendar quarters ending March, June, September and December in each year (each a "calendar quarter") commencing from and after the day of closing of the Offering, the General Partner will distribute to Unitholders whose names appear on the Certificate filed under the Act effective on the last day of the applicable calendar quarter, in proportion to the number of Units held by them as indicated on the Certificate, the

Distributable Cash determined in respect of that calendar quarter (Unitholders of record as at December 31, 1997 will only be entitled to receive Distributable Cash in respect of the period from the day of closing of the Offering to December 31, 1997). Such Distributable Cash will only be distributed to the extent that the Partnership has cash available for such payment (thereby excluding cash withheld as a reserve). The payment date for Distributable Cash to be distributed in respect of a calendar quarter shall be on or before 30 days after the end of such calendar quarter.

All amounts to be included in the computation of Distributable Cash shall be determined in accordance with generally accepted accounting principles in Canada as applied by the Partnership in the preparation of its financial statements. In the event of any uncertainty over the application of such principles in determining amounts to be included in the computation of Distributable Cash, the auditors of the Partnership will make such determinations as may be required.

### **5.3 Repayments**

If, as determined by the General Partner, it appears that any Partner has received an amount under this Article 5 which is in excess of that Partner's entitlement, the Partner will, forthwith upon notice from the General Partner, reimburse the Partnership to the extent of the excess, and failing immediate reimbursement, the General Partner may withhold the amount of the excess (with interest at the rate referred to in Section 4.11 from time to time calculated and compounded monthly) from further distributions otherwise due the Partner.

## **ARTICLE 6**

### **REIMBURSEMENT OF EXPENSES AND MANAGEMENT, INCENTIVE AND OTHER FEES**

#### **6.1 Expenses of the Partnership**

The Partnership will reimburse the General Partner for all direct and indirect operating, general and administrative and other costs and expenses incurred on the Partnership's behalf by the General Partner or in the performance of its duties hereunder (all of which costs and expenses shall be the Partnership's responsibility). For greater certainty, such costs and expenses for which the General Partner is to be reimbursed include the Partnership's direct and indirect operating, general and administrative, operating and other costs and expenses relating to the operation of the Pipeline Assets and any New Assets and earning revenues therefrom, including, without limitation, legal and audit fees, stock exchange listings fees, fees of the Registrar and Transfer Agent, Unitholder information costs, consulting and advisory fees incurred in connection with the Partnership's business or the evaluation of investment opportunities by the Partnership, fees paid to third parties, including Koch, for services rendered to the General Partner or the Partnership (provided that fees paid to Koch pursuant to the Support Agreement and any fees paid to an Affiliate of any successor general partner for providing like services may not exceed the cost to Koch or such Affiliate, as the case may be, of providing such services), expenses associated with the issuance of Units and costs incurred by the Independent Directors of the General Partner in evaluating matters relating to the Partnership, including any director's fees or incidental travel expenses paid to such Independent Directors.

#### **6.2 Management, Incentive and Other Fees**

- (a) The General Partner shall be paid an annual base fee equal to 2.0% of the total Operating Cash for each Fiscal Year of the Partnership. The fee will be paid on the payment date for payment of Distributable Cash to Unitholders for the last calendar quarter of each Fiscal Year;
- (b) The General Partner shall be entitled to earn an annual incentive fee (the "Incentive Fee") calculated as a percentage of the aggregate of (i) Distributable Cash during the first three calendar quarters of the Partnership in each Fiscal Year; and (ii) in respect of the last calendar quarter of each Fiscal Year, the amount that would constitute Distributable Cash but for the deduction of the Incentive Fee contemplated herein. The percentage of such aggregate amounts which will be payable as the Incentive Fee will be set forth and described in the final Prospectus. No Incentive Fee will be payable to the General Partner for the period from closing of the Offering to December 31, 1997. The Incentive Fee will be paid at the payment date for distribution of Distributable Cash for the last calendar quarter of each Fiscal Year. The Incentive Fee is in addition to reimbursement or compensation which the General Partner is entitled to pursuant to Article 6 or as a holder of Units.

- (c) The General Partner shall be entitled to earn an acquisition fee equal to 1.0% of the purchase price of any New Assets acquired by the Partnership that do not constitute a Non-Qualifying Business or Non-Qualifying Assets but excluding the acquisition by the Partnership from Koch of any or all of Koch's existing 50% interest in the "South Saskatchewan Pipeline" system and a disposition fee equal to 0.5% of the sale price of any assets sold by the Partnership (including, for greater certainty, Non-Qualifying Assets and assets that constitute a Non-Qualifying Business). For greater certainty, no acquisition fee will be payable in connection with the purchase of the Pipeline Assets by the Partnership. For the purposes of the calculation of fees payable pursuant to this paragraph (c) the purchase price or sale price payable pursuant to any acquisition or sale by the Partnership shall not include post-closing purchase price adjustments, taxes (including GST) or costs (including legal fees, brokerage fees and commissions, consulting fees and registration costs).
- (d) The Partnership will be responsible for the payment of any goods and service tax, if any, with respect to fees paid to the General Partner.

## ARTICLE 7

### WITHDRAWAL OF CAPITAL CONTRIBUTIONS

#### **7.1 Withdrawal**

No Unitholder has the right to withdraw any of the Unitholder's Capital Contribution or other amount or to receive any cash or other distribution from the Partnership except as provided for in this Agreement and except as permitted by law.

#### **7.2 Return of Capital Contribution**

Subject to compliance with the Act, for calendar quarters commencing from and after the date of formation of the Partnership (or the portion thereof in respect of the period commencing the date of formation of the Partnership and ending December 31, 1997), all Distributable Cash and other cash distributed to Unitholders shall be and shall be deemed to be withdrawals of or returns of Capital Contributions to the applicable Unitholders until the Unitholders have received 99.9% of the original Capital Contribution applicable to each Unit, after which no further withdrawals or returns of capital shall be made until dissolution of the Partnership. Coincidentally with each withdrawal or return of Capital Contribution, the Certificate shall be amended to set forth such withdrawal or return. The General Partner and each of the Unitholders hereby consents to the withdrawal or return of Capital Contributions contemplated in this Section 7.2.

## ARTICLE 8

### POWERS, DUTIES AND OBLIGATIONS OF GENERAL PARTNER

#### **8.1 Powers, Duties and Obligations**

##### **(a) The General Partner has:**

- (i) unlimited liability for the debts, liabilities and obligations of the Partnership;
- (ii) subject to the terms of this Agreement, and to any applicable limitations set forth in the Act and applicable similar legislation, the full and exclusive right, power and authority to manage, control, administer and operate the business and affairs and to make decisions regarding the undertaking and business of the Partnership; and
- (iii) the full and exclusive right, power and authority to do any act, take any proceeding, make any decision and execute and deliver any instrument, deed, agreement or document necessary for or incidental to carrying out the business of the Partnership.

An action taken by the General Partner on behalf of the Partnership is deemed to be the act of the Partnership and binds the Partnership.

## 8.2 Specific Powers and Duties

Without limiting the generality of Section 8.1 but subject to the limitations set forth in this Agreement, the General Partner will have full power and authority for and on behalf of and in the name of the Partnership to:

- (a) negotiate, conclude, execute, carry out and perform all agreements which require execution by or on behalf of the Partnership involving matters or transactions with respect to the Partnership's business (and such agreements may limit the liability of the Partnership to the assets of the Partnership, with the other party to have no recourse to the assets of the General Partner, even if the same results in the terms of the agreement being less favourable to the Partnership);
- (b) open and manage bank accounts in the name of the Partnership and spend the capital of the Partnership in the exercise of any right or power exercisable by the General Partner hereunder;
- (c) borrow money in the name of the Partnership from time to time, from the General Partner or its Affiliates including, without limitation, arranging for the credit facility as described in the Prospectus, or from financial institutions as the General Partner may determine without limitation with regard to amount, use, cost or conditions of reimbursement of such loan, other than limitations on the amount of borrowings as provided under Section 8.4, including the use of such borrowings to enable the General Partner to receive Incentive Fees or increased Incentive Fees, and it shall not constitute a breach of the General Partner's fiduciary duty to effect borrowings for such purpose;
- (d) mortgage, charge, assign, hypothecate, pledge or otherwise create a security interest in all or any property of the Partnership now owned or hereafter acquired, to secure any present and future borrowings and related expenses of the Partnership and to sell all or any of such property pursuant to a foreclosure or other realization upon the foregoing encumbrances;
- (e) establish cash reserves that are determined to be necessary or appropriate for the proper management and operation of the Partnership and the Pipeline Assets and New Assets, if any, including, but not limited to, cash reserves for future capital or maintenance expenditures, to fund the cost of abandonment of the Pipeline Assets and New Assets, if any, or other environmental obligations associated with the Pipeline Assets and New Assets, if any, to stabilize distributions of Distributable Cash, to reduce debt or as necessary to comply with the terms of any agreement or obligation of the Partnership;
- (f) see to the sound management of the Partnership, and to manage, control and develop all the activities of the Partnership and take all measures necessary or appropriate for the business of the Partnership or ancillary thereto;
- (g) acquire securities of entities engaged primarily in activities which are permitted activities for the Partnership as provided in Section 2.3;
- (h) maintain, improve, expand, extend or change the Pipeline Assets and any other assets or undertaking from time to time of the Partnership;
- (i) incur all costs and expenses in connection with the Partnership;
- (j) employ, retain, engage or dismiss from employment, personnel, agents, representatives or professionals with the powers and duties upon the terms and for the compensation as in the discretion of the General Partner may be necessary or advisable in the carrying on of the business of the Partnership;
- (k) engage agents, including Koch or any Associate of Koch, to assist the General Partner in carrying out its management obligations to the Partnership or subcontract administrative functions to Koch or any Associate of Koch;
- (l) invest cash assets of the Partnership that are not immediately required for the business of the Partnership in investments which the General Partner considers appropriate;
- (m) act as attorney in fact or agent of the Partnership in disbursing and collecting monies for the Partnership, paying debts and fulfilling the obligations of the Partnership and handling and settling any claims of the Partnership;
- (n) commence or defend any action or proceeding in connection with the Partnership;

- (o) file returns or other documents required by any governmental or like authority;
- (p) retain legal counsel, experts, advisors or consultants as the General Partner considers appropriate and rely upon the advice of such Persons;
- (q) do anything that is in furtherance of or incidental to the business of the Partnership or that is provided for in this Agreement;
- (r) execute, acknowledge and deliver the documents necessary to effectuate any or all of the foregoing or otherwise in connection with the business of the Partnership;
- (s) obtain any insurance coverage including, without limitation, arranging for the provision of insurance for the Partnership, the Pipeline Assets and New Assets, if any, as described in the Prospectus;
- (t) determine the terms and conditions of the offering of Units from time to time hereafter and to do all things in this regard, all as described in Section 3.3;
- (u) appoint the Registrar and Transfer Agent;
- (v) acquire or, subject to Section 10.17(c), dispose of assets of the Partnership; and
- (w) generally carry out the objects, purposes and business of the Partnership.

No Persons dealing with the Partnership will be required to enquire into the authority of the General Partner to do any act, take any proceeding, make any decision or execute and deliver any instrument, deed, agreement or document for or on behalf of or in the name of the Partnership. The General Partner shall use commercially reasonable efforts to insert, and cause agents of the Partnership to insert, the following clause in any material contracts or agreements to which the Partnership is a party or by which it is bound:

“Koch Pipelines Canada, L.P. is a limited partnership formed under the *Partnership Act* (Alberta), a limited partner of which is only liable for any of its liabilities or any of its losses to the extent of the amount that the limited partner has contributed or agreed to contribute to its capital and the limited partner’s pro rata share of any undistributed income.”

### **8.3 Loans from Koch**

Koch and its Affiliates or Associates including, without limitation, the General Partner, may advance or loan to the Partnership funds which, in the sole discretion of the General Partner, may be necessary or desirable for use by the Partnership. The rate of interest and any other expenses relative to such advances or borrowings shall not exceed that which the Partnership could obtain from a Canadian chartered bank with respect to similar borrowings.

### **8.4 Restriction on Borrowings**

The Partnership’s aggregate principal amount of borrowings at any given time shall not exceed six times the Partnership’s aggregate Distributable Cash for the preceding Fiscal Year. In respect of borrowings made by the Partnership in 1997 and 1998, Distributable Cash for the preceding Fiscal Year shall be the amount of forecast Distributable Cash disclosed in the Partnership’s Forecasted Statement of Income and Distributable Cash for the Year ending December 31, 1998 contained in the Prospectus.

### **8.5 Title to Property**

The General Partner may hold legal title to any of the assets or property of the Partnership in its name for the benefit of the Partnership.

### **8.6 Exercise of Duties**

Except as provided herein, the General Partner covenants that it will exercise the powers and discharge its duties under this Agreement in good faith, and in a manner it reasonably believes to be in, or not opposed to, the best interests of the Partnership, and that it will exercise the degree of care, diligence and skill that a reasonably prudent Person would exercise in comparable circumstances. Furthermore, the General Partner covenants that it will maintain the confidentiality of financial and other information and data which it may obtain through or on behalf of the Partnership, the disclosure of which may adversely affect the interests of the Partnership or a Unitholder, except to the extent that disclosure is permitted as provided herein, is required by law or is in the best interests of the Partnership.

## **8.7 Limitation of Liability**

The General Partner is not personally liable for the return of any Capital Contribution made by a Unitholder to the Partnership. Moreover, notwithstanding anything else contained in this Agreement, but subject to Sections 2.13 and 8.12, neither the General Partner nor any Affiliates thereof nor their respective officers, directors, shareholders, employees or agents are liable, responsible for or accountable for monetary damages or otherwise to the Partnership or a Unitholder for an action taken or failure to act on behalf of the Partnership within the scope of the authority conferred on the General Partner by this Agreement or by law provided the General Partner has acted in good faith and in a manner which the General Partner reasonably believed to be in, or not opposed to, the best interests of the Partnership.

## **8.8 Indemnity of General Partner**

- (a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, each General Partner, each holder of Class B Units, any former General Partner and any former holder of Class B Units (each, a “Departing Partner”), any Person who is or was an Affiliate of the General Partner or any Departing Partner, any Person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such Affiliate, or any Person who is or was serving at the request of the General Partner or any Departing Partner or any such Affiliate as a director, officer, employee, partner, agent or trustee of another Person (“Indemnitees”) shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as: (i) the General Partner, a Departing Partner or any of their Affiliates; (ii) an officer, director, employee, partner, agent or trustee of the General Partner, any Departing Partner or any of their Affiliates; or (iii) a Person serving at the request of the General Partner, any Departing Partner or any of their Affiliates as a director, officer, employee, partner agent or trustee of another Person; provided, that in each case the Indemnitee acted in good faith and in a manner it reasonably believed to be in, or not opposed to, the best interests of the Partnership and, in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the Indemnitee had no reasonable cause to believe its conduct was unlawful; provided further, that no indemnification pursuant to this Section 8.8 shall be available to Koch Industries with respect to its obligations incurred pursuant to the Underwriting Agreement. Indemnification pursuant to this Section 8.8 shall be available to the General Partner with respect to obligations incurred by the General Partner on behalf of the Partnership pursuant to the Underwriting Agreement. The termination of any action, suit or proceeding by judgment, order, settlement or conviction shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 8.8 shall be made only out of the assets of the Partnership.
- (b) To the fullest extent permitted by law, expenses (including, without limitation, legal fees and expenses) incurred by an Indemnitee in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 8.8.
- (c) The indemnification provided by this Section 8.8 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, as to actions in the Indemnitee’s capacity as: (i) the General Partner, a Departing Partner or an Affiliate thereof; (ii) an officer, director, employee, partner, agent or trustee of the General Partner, any Departing Partner or an Affiliate thereof; or (iii) a Person serving at the request of the General Partner, any Departing Partner or any of their Affiliates as a director, officer, employee, partner, agent or trustee of another Person, and shall continue as to an Indemnitee who has ceased to serve in such capacity and as to actions in any other capacity.

- (d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, whether or not the Partnership would have the power to indemnify such Person against such liabilities under the provisions of this Agreement.

## **8.9 Liability of Indemnitees**

- (a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnatee shall be liable for monetary damages to the Partnership or the Unitholders for losses sustained or liabilities incurred as a result of any act or omission if such Indemnatee acted in good faith and in a manner which the Indemnatee reasonably believed to be in, or not opposed to, the best interests of the Partnership.
- (b) The General Partner may exercise any of the powers or authority granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents (as contemplated in Section 8.2(k)), and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

## **8.10 Resolution of Conflicts of Interest**

Unless otherwise expressly provided in this Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, or any Unitholder on the other hand, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by all Unitholders, and shall not constitute a breach of this Agreement, or of any standard of care or duty stated or implied by law if the General Partner reasonably believes such resolution or course of action is fair and reasonable to the Partnership. The General Partner shall be authorized in connection with its resolution of any conflict of interest to consider: (i) the relative interests of all parties involved in such conflict or affected by such action; (ii) any customary or accepted industry practices; (iii) any applicable generally accepted accounting practices or principles; and (iv) such additional factors as the General Partner determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolutions, actions or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement or a breach of any standard of care or duty imposed herein or stated or implied under the Act, any law, rule or regulation.

## **8.11 Other Matters Concerning the General Partner**

- (a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.
- (b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted in reliance upon the opinion (including, without limitation, an opinion of counsel) of such Persons as to matters that the General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.
- (c) The General Partner shall have the right, in respect of any of its powers, authority or obligations hereunder, to act through any of its duly authorized officers.
- (d) Any standard of care or duty imposed under the Act or any applicable law shall be modified, waived or limited as required to permit the General Partner to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the power or authority prescribed in this Agreement, so long as such action is reasonably believed by the General Partner to be in, or not opposed to, the best interests of the Partnership.

### **8.12 Indemnity of Partnership**

The General Partner hereby indemnifies and holds harmless the Partnership and each Unitholder from and against all costs, expenses, damages or liabilities suffered or incurred by the Partnership or such Unitholders by reason of an act of wilful misconduct, gross negligence by the General Partner or of any act or omission not believed by the General Partner in good faith to be within the scope of the authority conferred on the General Partner by this Agreement.

### **8.13 Restrictions upon the General Partner**

The General Partner's power and authority do not extend to any powers, actions or authority not enumerated in Sections 8.1 and 8.2 unless and until the requisite Extraordinary Resolution is passed by the Partners. Further, the General Partner will not:

- (a) commingle the funds of the Partnership with the funds of the General Partner or any of its Affiliates or Associates or with the funds of any other Person;
- (b) dissolve the Partnership except in accordance with the provisions of Article 13 hereof;
- (c) except in accordance with Section 11.17(c), effect a sale, exchange or other disposition of all or substantially all of the assets of the Partnership; or
- (d) withdraw as General Partner except in accordance with the provisions of Section 8.16 hereof.

### **8.14 Employment of an Affiliate or Associate**

The General Partner may employ or retain Affiliates or Associates of the General Partner or the Unitholders on behalf of the Partnership to provide goods or services to the Partnership provided that, if the Partnership is to reimburse the General Partner for the costs and expenses of such goods or services, the costs of such goods or services must be reasonable and competitive with the costs of similar goods and services provided by independent third parties. Notwithstanding the foregoing, any fees paid to Koch for services rendered to the General Partner or to the Partnership pursuant to the Support Agreement may not exceed Koch's cost of providing such services.

### **8.15 Removal of General Partner**

Except as provided for in Sections 8.15(a) and (b), the General Partner may not be removed as general partner of the Partnership.

- (a) Upon the passing of any resolution of the directors or shareholders of the General Partner requiring or relating to the bankruptcy, dissolution, liquidation or winding-up or the making of any assignment for the benefit of creditors of the General Partner, or upon the appointment of a receiver of the assets and undertaking of the General Partner, or upon the General Partner failing to maintain its status as a subsisting corporation, the General Partner shall cease to be qualified to act as general partner hereunder and shall be deemed to have been removed thereupon as the general partner of the Partnership effective upon the appointment of a new general partner. A new general partner shall, in such instances, be appointed by the Unitholders by an Ordinary Resolution after receipt of written notice of such event (which written notice shall be provided by the General Partner forthwith upon the occurrence of such event).
- (b) The General Partner may also be removed: (i) if the General Partner has committed a material breach of this Agreement, which subsists for a period of 60 days after notice, and such removal is approved by an Extraordinary Resolution excluding, for this purpose, Units held by the General Partner and its Affiliates; or (ii) in the event that the General Partner and its Affiliates hold at any time less than 30% of the outstanding Units, upon approval by Ordinary Resolution. Any such action by the Unitholders for removal of the General Partner under this Section 8.15(b) must also provide for the election and succession of a new general partner. Such removal shall be effective immediately following the admission of the successor general partner to the Partnership.

### **8.16 Voluntary Withdrawal of General Partner**

The General Partner agrees not to voluntarily withdraw as general partner at any time prior to the fifth anniversary of the closing of the Offering, provided that: (a) if the General Partner is an Affiliate of Koch, the

General Partner may withdraw without Unitholder approval on 90 days' written notice to the Unitholders in the event that Koch decides to no longer be involved, directly or indirectly, in the operation of pipelines in North America; (b) the General Partner may withdraw if such withdrawal is approved by an Extraordinary Resolution excluding, for this purpose, Units held by the General Partner and its Affiliates, after which event the General Partner may withdraw as such by giving 90 days' written notice; and (c) the General Partner may withdraw without Unitholder approval upon 90 days' written notice to the Unitholders if more than 50% of the outstanding Units are directly or indirectly held or controlled by one person and its Affiliates other than the withdrawing General Partner and its Affiliates. Nothing contained in this Agreement shall restrict the ability of Koch or its Affiliates to sell all or any portion of the General Partner to a third party or parties without the approval of the Unitholders. After the fifth anniversary of the closing of the Offering, the General Partner may withdraw without Unitholder approval in the circumstances described in items (a), (b) and (c) above, and, in addition, may withdraw on 12 months' notice to the Unitholders or on 90 days' notice to the Unitholders if such withdrawal is approved by the Independent Directors at any time after the fifth anniversary of the closing of the Offering.

#### **8.17 Condition Precedent**

As a condition precedent to the resignation or removal of the General Partner, the Partnership shall pay all amounts payable by the Partnership to the General Partner pursuant to this Agreement accrued to the date of resignation or removal subject to any claims by the Partnership against the General Partner or liabilities of the General Partner to the Partnership.

#### **8.18 Transfer to New General Partner**

On the admission of a new general partner to the Partnership on the resignation, removal or withdrawal of the General Partner, the resigning or retiring General Partner will do all things and take all steps reasonably necessary to transfer the administration, management, control and operation of the business of the Partnership and the books, records and accounts of the Partnership to the new general partner and will execute and deliver all deeds, certificates, declarations and other documents necessary or desirable to effect such transfer in a timely fashion.

#### **8.19 Transfer of Title to New General Partner**

On the resignation, removal or withdrawal of the General Partner and the admission of a new general partner, the resigning or retiring General Partner will, at the cost of the Partnership, transfer title to the Partnership's property to such new general partner and will execute and deliver all deeds, certificates, declarations and other documents necessary or desirable to effect such transfer in a timely fashion.

#### **8.20 Release by Partnership**

On the resignation, removal or withdrawal of the General Partner, the Partnership will release and hold harmless the General Partner resigning, being removed, or withdrawing from any costs, expenses, damages or liabilities suffered or incurred by the General Partner as a result of or arising out of events which occur in relation to the Partnership after such resignation, removal or withdrawal.

#### **8.21 New General Partner**

A new general partner shall not be a "non-resident" of Canada within the meaning of the Tax Act and will become a party to this Agreement by signing a counterpart hereof and will agree to be bound by all of the provisions hereof and to assume the obligations, duties and liabilities of the General Partner hereunder as from the date the new general partner becomes a party to this Agreement. The new general partner must acquire and hold, at all times while it is General Partner of the Partnership, Class B Units representing at least 0.1% of the outstanding Units.

## **8.22 Transfer of Class B Units**

The General Partner may at any time and from time to time transfer Class B Units to any Person, without the approval of the Limited Partners, provided that if the General Partner will continue to be the general partner of the Partnership after such transfer, the General Partner may not transfer Class B Units if, after giving effect to such transfer, the remaining Class B Units held by the General Partner would represent less than 0.1% of the outstanding Units.

Without limitation of the foregoing, the General Partner may transfer all, but not less than all, of its Class B Units in the Partnership without the approval of the Limited Partners:

- (a) to an Affiliate of Koch;
- (b) in connection with the General Partner's merger or amalgamation with or into another entity; or
- (c) to the purchaser of all or substantially all of its assets;

in all cases provided that such transferee assumes the rights and duties of the General Partner and agrees to be bound by the provisions of this Agreement.

In the case of any transfer involving all of the General Partner's interest in Class B Units (other than a permitted transfer to a successor general partner as provided in this Section 8.22), approval by an Extraordinary Resolution will be required.

## **ARTICLE 9**

### **PIPELINE ASSET DEVELOPMENT**

#### **9.1 Operational Enhancements**

In the event that the General Partner determines to proceed with an Operational Enhancement, the General Partner will determine the manner of financing the Operational Enhancement, which may include one or a combination of the following: (i) usage of cash of the Partnership that would otherwise become Distributable Cash; (ii) borrowing by the Partnership upon such terms as the General Partner may determine, and assets of the Partnership may be pledged to secure such borrowing; and (iii) the issuance of additional Units.

#### **9.2 Laterals**

If the General Partner wishes to cause the Partnership to construct a Lateral, it must make a proposal (a "Proposal") to the board of directors of the General Partner (the "Board of Directors") for construction of such Lateral. In order to make a Proposal, the General Partner will provide the Board of Directors with such information as may reasonably be required to enable the Proposal to be evaluated. In the event that the Board of Directors, within a reasonable period of time after receipt of the Proposal, determines that the Partnership should not proceed with the Lateral contemplated by the Proposal, in the form proposed by the General Partner or with such modifications as they may approve, neither the General Partner nor its Affiliates may elect to proceed with such Lateral unless at the time such Proposal is submitted to the Board of Directors for approval, a majority of the Board of Directors is comprised of Independent Directors. In the event that the General Partner or its Affiliates decide to proceed with such Lateral, then the General Partner and/or its Affiliates, as applicable, and the Partnership shall enter into agreements to provide for revenue and cost sharing, as applicable.

#### **9.3 Extensions**

In the event that the General Partner or its Affiliates desire to construct an Extension, the General Partner or its Affiliates will be entitled to construct, own and operate the Extension without making a Proposal to the Partnership or otherwise offering the Partnership the right to participate. In the event that the General Partner or its Affiliates determine to construct an Extension on that basis, then the General Partner and/or its Affiliates, as applicable, and the Partnership shall enter into agreements to provide for revenue and cost sharing, as applicable.

#### **9.4 No Breach of Fiduciary Duty**

The Unitholders acknowledge and agree that actions by the General Partner and its Affiliates, including Koch Oil, as contemplated by this Article 9, shall not constitute a breach of fiduciary duty by the General Partner and shall be deemed to be in, or not opposed to, the best interests of the Partnership.

**ARTICLE 10**  
**FINANCIAL INFORMATION**

**10.1 Books and Records**

The General Partner shall keep or cause to be kept at the principal office of the Partnership in Alberta appropriate books and records with respect to the Partnership's business (other than the Register, which shall be maintained by the Registrar and Transfer Agent). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including, without limitation, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard disks, magnetic tape, or any other information storage device, provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles.

**10.2 Reports**

- (a) As soon as practicable, but in no event later than 140 days after the end of each Fiscal Year, the General Partner shall cause to be mailed to each Unitholder as indicated on the Register as of a date selected by the General Partner in its sole discretion, financial statements of the Partnership for such Fiscal Year, presented in accordance with Canadian generally accepted accounting principles, including a balance sheet and statements of operations, Partners' equity and Distributable Cash, such statements to be reported upon by the Auditor.
- (b) As soon as practicable, but in no event later than 60 days after the end of each calendar quarter (except the last calendar quarter of each year), the General Partner shall cause to be mailed to each Unitholder as indicated on the Register as of a date selected by the General Partner in its sole discretion, a report containing unaudited interim financial statements of the Partnership and such other information as may be required by applicable securities laws, or the rule of any stock exchange on which any of the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

**10.3 Income Tax Information**

The General Partner will use reasonable efforts to send or cause to be sent to each Person who was a Unitholder during the previous Fiscal Year, or at the date of dissolution of the Partnership, within 90 days of the end of such Fiscal Year or within 60 days of dissolution, as the case may be, or within such other shorter period of time as may be required by applicable law, all information, in suitable form, relating to the Partnership necessary for such Person to prepare such Person's Canadian federal and provincial income tax returns. The General Partner shall file, on behalf of itself and the Unitholders, annual Partnership information returns and any other information returns required to be filed under the Tax Act and any other applicable tax legislation in respect of the Partnership.

**10.4 Right to Inspect Partnership Books and Records**

- (a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 10.4(b), each Unitholder shall have the right, for a purpose reasonably related to such Unitholder's interest as a Partner in the Partnership, upon reasonable demand and at such Unitholder's own expense, have furnished to it:
  - (i) a current list of the name and last known address of each Unitholder;
  - (ii) copies of this Agreement and the Certificate, and amendments thereto; and
  - (iii) such other information regarding the affairs of the Partnership as is just and reasonable.
- (b) Notwithstanding Section 10.4(a), the General Partner may keep confidential from the Unitholders for such period of time as the General Partner deems reasonable, any information (other than information referred to in Section 10.4(a)(ii)) that the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or could damage the Partnership or that the Partnership is required by law or by agreements with third parties to keep confidential.

## **10.5 Accounting Policies**

The General Partner is authorized to establish from time to time accounting policies with respect to the financial statements of the Partnership and to change from time to time any policy that has been so established so long as such policies are consistent with generally accepted accounting principles in Canada.

## **10.6 Appointment of Auditor**

The General Partner will, on behalf of the Partnership, select the Auditor to review and report to the Partners upon the financial statements of the Partnership for and as at the end of each Fiscal Year, and to advise upon and make determinations with regard to financial questions relating to the Partnership or required by this Agreement to be determined by the Auditor.

# **ARTICLE 11**

## **MEETINGS OF THE UNITHOLDERS**

### **11.1 Requisitions of Meetings**

The General Partner may call a general meeting of Unitholders at such time and place as it deems appropriate in its absolute discretion for the purpose of considering any matter set forth in the notice of meeting. In addition, where Unitholders holding not less than 10% of the outstanding Units (the "Requisitioning Partners") give notice signed by each of them to the General Partner, requesting a meeting of the Unitholders, the General Partner shall, within 60 days of receipt of such notice, convene such meeting, and if it fails to do so, any Requisitioning Partner may convene such meeting by giving notice in accordance with this Agreement. Every meeting of the Unitholders, however convened, will be conducted in accordance with this Agreement.

### **11.2 Place of Meeting**

Every meeting of Unitholders shall be held in the City of Calgary, Alberta or at such other place in Canada as the General Partner (or Requisitioning Partners, if the General Partner fails to call such meeting in accordance with Section 11.1) may designate.

### **11.3 Notice of Meeting**

Notice of any meeting of Unitholders will be given to each Unitholder not less than 21 days (but not more than 60 days) prior to such meeting, and will state:

- (a) the time, date and place of such meeting; and
- (b) in general terms, the nature of the business to be transacted at the meeting in sufficient detail to permit a Limited Partner to make a reasoned decision thereon.

Notice of an adjourned meeting of Unitholders need not be given if the adjourned meeting is held within 14 days of the original meeting. Otherwise, but subject to Section 11.13, notice of adjourned meetings shall be given not less than 10 days in advance of the adjourned meeting and otherwise in accordance with this Section 11.3, except that the notice need not specify the nature of the business to be transacted if unchanged from the original meeting.

### **11.4 Record Dates**

For the purpose of determining the Unitholders who are entitled to vote or act at any meeting of Unitholders or any adjournment thereof, or for the purpose of any other action, the General Partner may give a date not more than 60 days prior to the date of any meeting of Unitholders or other action as a record date for the determination of Unitholders entitled to vote at such meeting or any adjournment thereof or to be treated as Unitholders of record for purposes of such other action, and any Unitholder who was a Unitholder at the time so fixed shall be entitled to vote at such meeting or any adjournment thereof even though it has since that date disposed of its Units, and no Unitholder becoming such after that date shall be a Unitholder of record for purposes of such action. A Person shall be a Unitholder of record at the relevant time if the Person's name appears in the Certificate as amended and supplemented at such time.

## **11.5 Information Circular**

If proxies are solicited from Unitholders in connection with a meeting of Partners, the Person or Persons soliciting such proxies shall prepare an information circular which shall contain, to the extent that it is relevant and applicable, the information prescribed for information circulars by the Securities Act (Alberta).

## **11.6 Proxies**

Any Unitholder entitled to vote at a meeting of Unitholders may vote by proxy if a form of proxy has been received by the General Partner or the chairman of the meeting for verification prior to the commencement of the meeting.

## **11.7 Validity of Proxies**

A proxy purporting to be executed by or on behalf of a Unitholder will be considered to be valid unless challenged at the time of or prior to its exercise. The Person challenging the proxy will have the burden of proving to the satisfaction of the chairman of the meeting that the proxy is invalid and any decision of the chairman concerning the validity of a proxy will be final. Proxies shall be valid only at the meeting with respect to which they were solicited, or any adjournment thereof, but in any event shall cease to be valid one year from their date. A proxy given on behalf of joint holders must be executed by all of them and may be revoked by any of them, and if more than one of several joint holders is present at a meeting and they do not agree which of them is to exercise any vote to which they are jointly entitled, they will for the purposes of voting be deemed not to be present. A proxy holder need not be a holder of a Unit.

## **11.8 Form of Proxy**

Every proxy will be substantially in the form as may be approved by the General Partner or as may be satisfactory to the chairman of the meeting at which it is sought to be exercised.

## **11.9 Revocation of Proxy**

A vote cast in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death, incapacity, insolvency or bankruptcy of the Unitholder giving the proxy or the revocation of the proxy unless written notice of such death, incapacity, insolvency, bankruptcy or revocation shall have been received by the chairman of the meeting prior to the commencement of the meeting.

## **11.10 Corporations**

A Unitholder which is a corporation may appoint an officer, director or other authorized person as its representative to attend, vote and act on its behalf at a meeting of Unitholders.

## **11.11 Attendance of Others**

Any officer or director of the General Partner, legal counsel for the General Partner and the Partnership and representatives of the Auditor will be entitled to attend any meeting of Unitholders. The General Partner has the right to authorize the presence of any Person at a meeting regardless of whether the Person is a Unitholder. With the approval of the General Partner, that Person is entitled to address the meeting.

## **11.12 Chairman**

The General Partner may nominate a Person, including, without limitation, an officer or director of the General Partner (who need not be a Unitholder), to be chairman of a meeting of Unitholders and the person nominated by the General Partner will be chairman of such meeting unless the Unitholders elect another chairman by Extraordinary Resolution.

## **11.13 Quorum**

A quorum at any meeting of Unitholders will consist of one or more Unitholders present in person or by proxy holding at least 10% of the outstanding Units. If, within half an hour after the time fixed for the holding of such meeting, a quorum for the meeting is not present, the meeting:

- (a) if called by or on the requisition of Unitholders, will be terminated; and

- (b) if called by the General Partner, will be held at the same time and place on the day which is 14 days later (or if that date is not a business day, the first business day after that date). The General Partner will give three days' notice to all Unitholders of the date of the reconvening of the adjourned meeting and at such meeting the quorum will consist of the Unitholders then present in person or represented by proxy.

#### **11.14 Voting**

Every question submitted to a meeting of Unitholders:

- (a) which requires an Extraordinary Resolution under this Agreement or a decision under Section 8.15(b)(i) will be decided by a poll; and
- (b) which does not require an Extraordinary Resolution (and is not a decision under Section 8.15(b)(i)) will be decided by an Ordinary Resolution on a show of hands unless otherwise required by this Agreement or a poll is demanded by a Unitholder, in which case a poll will be taken;

and in the case of an equality of votes, the chairman will not have a casting vote and the resolution will be deemed to be defeated. The chairman will be entitled to vote in respect of any Units held by him or her or for which he or she may be a proxy holder. On any vote at a meeting of Unitholders, a declaration of the chairman concerning the result of the vote will be conclusive.

On a poll, each Person present at the meeting will have one vote for each Unit in respect of which the Person is shown on the Certificate as a Unitholder at the record date and for each Unit in respect of which the Person is the proxy holder. Each Unitholder present at the meeting and entitled to vote thereat will have one vote on a show of hands. If Units are held jointly by two or more persons and only one of them is present or represented by proxy at a meeting of Unitholder, such Unitholder may, in the absence of the other or others, vote with respect thereto, but if more than one of them is present or represented by proxy, they shall vote together on the whole Units held jointly.

The General Partner, as such, shall not be entitled to vote on any poll or on a show of hands at any meeting of Unitholders, other than in respect of the Class B Units and Class A Units held by such General Partner. Any Unitholder who is in default of payment of the subscription price for its Units shall not be entitled to vote in respect of any of its Units.

Any action required or permitted to be taken by the Unitholders may be taken by written resolution signed by Unitholders representing the requisite number of the outstanding Units.

#### **11.15 Poll**

A poll requested or required will be taken at the meeting of Unitholders or an adjournment of the meeting in such manner as the chairman directs.

#### **11.16 Powers of Unitholders; Resolution Binding**

The Unitholders shall have only the powers set forth in this Agreement and any additional powers provided by law. Subject to the foregoing sentence, any resolution passed in accordance with this Agreement will be binding on all the Partners and their respective heirs, executors, administrators, successors and assigns, whether or not any such Partner was present in person or voted against any resolution so passed.

#### **11.17 Powers Exercisable by Extraordinary Resolution**

The following powers shall only be exercisable by an Extraordinary Resolution passed by the Unitholders:

- (a) dissolving the Partnership, except as otherwise provided for under Sections 13.1(b), (c) and (d);
- (b) removing the General Partner pursuant to Section 8.16(b)(i) and electing a new general partner as provided for under Section 8.16(b);
- (c) the sale, exchange or other disposition of all or substantially all of the property of the Partnership in a single transaction or a series of related transactions;
- (d) waiving any default on the part of the General Partner on such terms as the Unitholders may determine;
- (e) amending, modifying, altering or repealing any Extraordinary Resolution previously passed by the Unitholders;

- (f) amending this Agreement pursuant to Section 14.1;
- (g) requiring the General Partner on behalf of the Partnership to enforce any obligation or covenant on the part of any Unitholder;
- (h) electing the chairman of a meeting of Unitholders as provided in Section 11.12; and
- (i) determining to reconstitute the Partnership under Section 13.3;

provided that for the purposes of the approvals required for those matters referred to in Section 11.17(b), where the General Partner and its Affiliates were not permitted to vote on the original Extraordinary Resolution, Units owned by the General Partner and its Affiliates shall not be permitted to be voted on any resolutions and shall be deemed not to be outstanding.

#### **11.18 Conditions to Action by Unitholders**

The right of the Unitholders to vote to amend this Agreement, to dissolve the Partnership or to remove the General Partner and to admit a replacement therefor or to exercise any of the powers set forth in Section 11.17 or to approve or initiate the taking of, or take, any other action at any meeting of Unitholders shall not come into existence or be effective in any manner unless and until, prior to the exercise of any such right or the taking of any such action, the Partnership has received an opinion of counsel advising the Unitholders as to the effect that the exercise of such rights or the taking of such actions may have on the limited liability of any Unitholders other than those Unitholders who have initiated such action, each of whom expressly acknowledges that the exercise of such right or the taking of such action may subject each of such Unitholders to liability as a general partner under the Act or applicable similar legislation.

#### **11.19 Minutes**

The General Partner will cause minutes to be kept of all proceedings and resolutions at every meeting and will cause all such minutes and all resolutions of the Unitholders consented to in writing to be made and entered into books to be kept for that purpose. Any minutes of a meeting signed by the chairman of the meeting will be deemed evidence of the matters stated in them and such meeting will be deemed to have been duly convened and held and all resolutions and proceedings shown in them will be deemed to have been duly passed and taken.

#### **11.20 Additional Rules and Procedures**

To the extent that the rules and procedures for the conduct of a meeting of the Unitholders are not prescribed in this Agreement, the rules and procedures will be determined by the General Partner.

### **ARTICLE 12**

#### **NOTICES**

##### **12.1 Address**

Any notice or other written communication which must be given or sent under this Agreement shall be given by first-class mail or personal delivery to the address of the General Partner and the Unitholders as follows: in the case of the General Partner, to: 1400, 111 – 5th Avenue S.W. Calgary, Alberta T2P 3Y6 and in the case of Unitholders: to the postal address inscribed in the Register or any other new address following a change of address in conformity with Section 12.2.

##### **12.2 Change of Address**

A Unitholder may, at any time, change its address for the purpose of service by written notice to the General Partner. The General Partner may change its address for the purpose of service by written notice to all the Unitholders.

##### **12.3 Accidental Failure**

An accidental omission in the giving of, or failure to give, a notice required by this Agreement will not invalidate or affect in any way the legality of any meeting or other proceeding in respect of which such notice was or was intended to be given.

#### **12.4 Disruption in Mail**

In the event of any disruption, strike or interruption in the Canadian postal service after mailing and before receipt or deemed receipt of a document, it will be deemed to have been received on the sixth business day following full resumption of the Canadian postal service.

#### **12.5 Receipt of Notice**

Subject to Section 12.4, notices given by first-class mail shall be deemed to have been received on the third business day following the deposit of such notice in the mail and notices given by delivery shall be deemed to have been received on the date of their delivery.

#### **12.6 Undelivered Notices**

If the General Partner sends a notice or document to a Unitholder in accordance with Section 12.1 and the notice or document is returned on three consecutive occasions because the Unitholder cannot be found, the General Partner is not required to send any further notices or documents to the Unitholder until the Unitholder informs the General Partner in writing of the Unitholder's new address.

### **ARTICLE 13**

#### **DISSOLUTION AND LIQUIDATION**

##### **13.1 Events of Dissolution**

The Partnership shall follow the procedure for dissolution established in Section 13.3 upon the occurrence of any of the following events or dates:

- (a) the election of the General Partner to dissolve the Partnership, if approved by an Extraordinary Resolution;
- (b) the sale, exchange or other disposition of all or substantially all of the property of the Partnership, if approved by an Extraordinary Resolution;
- (c) the withdrawal or removal of the General Partner or any other event that results in its ceasing to be the general partner unless the General Partner is replaced with a successor general partner; or
- (d) December 31, 2037.

##### **13.2 No Dissolution**

The Partnership shall not come to an end by reason of the death, bankruptcy, assignment of property for the benefit of creditors, insolvency, mental incompetency or other disability of any Limited Partner or upon transfer of any Class A Units.

##### **13.3 Continuation After Event of Dissolution**

Upon the occurrence of an event described in Section 13.1 (c), if within 90 days thereafter, holders of Units, by an Extraordinary Resolution so elect, the Unitholders shall reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as a general partner a Person approved by the Unitholders pursuant to the Extraordinary Resolution. Upon any such election by Extraordinary Resolution, all Partners shall be bound thereby and shall be deemed to have approved thereof. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

- (a) the reconstituted Partnership shall continue until the end of the term set forth in Section 13.1(d) unless earlier dissolved in accordance with this Article 13; and
- (b) all necessary steps shall be taken to cancel this Agreement and the Certificate and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted to the General Partner pursuant to Section 2.11; provided that the right of holders of Units by an Extraordinary Resolution to approve a successor general partner and to reconstitute and to continue the business of the Partnership

shall not exist and may not be exercised unless the Partnership has received an opinion of counsel that such reconstitution, continuation and approval the exercise of the right would not result in the loss of limited liability of any Limited Partner.

#### **13.4 Procedure on Dissolution**

Upon the occurrence of any of the events set forth in Section 13.1, the General Partner (or in the event of an occurrence specified in Section 13.1(c), such other Person as may be appointed by Ordinary Resolution of the Unitholders) shall act as a receiver and liquidator of the assets of the Partnership and shall:

- (a) sell or otherwise dispose of such part of the Partnership's assets as the receiver shall consider appropriate;
- (b) pay or provide for the payment of the debts and liabilities of the Partnership and liquidation expenses;
- (c) if there are any assets of the Partnership remaining, distribute such remaining assets to Unitholders indicated on the Certificate on the date of dissolution, subject to Sections 3.19 and 4.12, proportionate to the number of Units held by them; and
- (d) file the notice of dissolution prescribed by the Act and satisfy all applicable formalities in such circumstances as may be prescribed by the laws of other jurisdictions where the Partnership is registered. In addition, the General Partner shall give prior notice of the dissolution of the Partnership by mailing to each Unitholder and to the Registrar and Transfer Agent such notice at least 21 days prior to the filing of the declaration of dissolution prescribed by the Act.

#### **13.5 Dissolution**

The Partnership shall be dissolved upon the completion of all matters set forth in Section 13.4.

#### **13.6 No Right to Dissolve**

Except as provided for in Section 13.1, no Unitholder shall have the right to ask for the dissolution of the Partnership, the winding-up of its affairs or the distribution of its assets.

#### **13.7 Agreement Continues**

Notwithstanding the dissolution of the Partnership, this Agreement shall not terminate until the provisions of Section 13.4 shall have been satisfied.

### **ARTICLE 14**

#### **AMENDMENT**

#### **14.1 Amendment Procedures**

Except as provided in Section 14.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed solely by the General Partner. Each such proposal shall contain the text of the proposed amendment. If an amendment is proposed, the General Partner shall seek the approval of the Unitholders by an Extraordinary Resolution, except as provided in Section 14.3.

#### **14.2 Amendment Requirements**

Notwithstanding the provisions of Sections 14.1 and 14.3, no amendment to this Agreement may: (i) enlarge the obligations of the General Partner without its consent; (ii) restrict in any way any action by or rights of the General Partner as set forth in this Agreement without its consent; (iii) modify the amounts distributable, reimbursable or otherwise payable by the Partnership to the General Partner or any of its Affiliates without its consent; (iv) reduce the term of the Partnership as provided in Section 13.1(d); (v) give any Person the right to dissolve the Partnership, other than the General Partner's right to dissolve the Partnership with the approval of the Unitholders by an Extraordinary Resolution; or (vi) modify the amendment provisions in this Article 14.

#### **14.3 Amendment by General Partner**

Each Unitholder agrees that the General Partner (pursuant to its powers of attorney from the Unitholders or as expressly provided herein), without the approval of any Unitholder may amend any provision of this Agreement,

and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

- (a) a change in the name of the Partnership or the location of the principal place of business of the Partnership;
- (b) the admission, substitution, withdrawal or removal of Unitholders in accordance with this Agreement;
- (c) a change that, in the sole discretion of the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the Limited Partners have limited liability under the applicable laws;
- (d) a change that, in the sole discretion of the General Partner, is reasonable and necessary or appropriate to enable Partners to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws;
- (e) a deletion from the definition of "Eligible Investor" the references to a present or former direct or indirect shareholder of Koch Industries or an Associate or Affiliate of a present or former direct or indirect shareholder of Koch Industries;
- (f) an increase in the frequency of distributions of Distributable Cash to more often than quarterly; provided that a change in frequency of distributions may not be made by the General Partner more often than once in any twelve month period; and
- (g) a change that, in the sole discretion of the General Partner, does not materially adversely affect the Unitholders.

#### **14.4 Notice of Amendments**

The General Partner shall notify the Limited Partners in writing of the full details of any amendment to this Agreement within 30 days of the effective date of the amendment.

### **ARTICLE 15 MISCELLANEOUS**

#### **15.1 Binding Agreement**

Subject to the restrictions on assignment and transfer herein contained, this Agreement will enure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators and other legal representatives, successors and assigns.

#### **15.2 Time**

Time shall be of the essence hereof.

#### **15.3 Counterparts**

This Agreement, or any amendment to it, may be executed in multiple counterparts, each of which will be deemed an original agreement. This Agreement may also be executed and adopted in any Subscription Form or similar instrument signed by a Unitholder with the same effect as if such Unitholder had executed a counterpart of this Agreement. All counterparts and adopting instruments shall be construed together and shall constitute one and the same agreement.

#### **15.4 Governing Law**

This Agreement and the Schedule hereto which, by common accord, together with all related documents have been and will be drafted in the English language only, shall be governed and construed exclusively according to the laws of the Province of Alberta and the laws of Canada applicable thereto and the parties hereto irrevocably attorn to the non-exclusive jurisdiction of the courts of the Province of Alberta.

#### **15.5 Severability**

If any part of this Agreement is declared invalid or unenforceable, then such part shall be deemed to be severable from this Agreement and will not affect the remainder of this Agreement.

## **15.6 Further Acts**

The parties will perform and cause to be performed such further and other acts and things and execute and deliver or cause to be executed and delivered such further and other documents as counsel to the Partnership considers necessary or desirable to carry out the terms and intent of this Agreement.

## **15.7 Entire Agreement**

This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof.

## **15.8 Limited Partner Not a General Partner**

If any provision of this Agreement has the effect of imposing upon any Limited Partner (other than the General Partner) any of the liabilities or obligations of a general partner under the Act, such provision shall be of no force and effect.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date set out above.

KOCH PIPELINES CANADA LTD.  
as General Partner

By: (Signed) DAVID W. FESYK  
President and Chief Executive Officer

By: (Signed) DAVID G. PARK  
Vice-President, Finance and Chief Financial Officer

687371 ALBERTA LTD.

By: (Signed) ALLAN R. TWA  
Director

KOCH PIPELINES CANADA LTD.,  
as agent and attorney for the Unitholders whose  
subscriptions for Units are accepted from time to time

By: (Signed) DAVID W. FESYK  
President and Chief Executive Officer

By: (Signed) DAVID G. PARK  
Vice-President, Finance and Chief Financial Officer

## SCHEDULE 1

### Transfer and Power of Attorney Form

I, the undersigned, a Unitholder of Koch Pipelines Canada, L.P. (the "Partnership") hereby transfer, assign and sell to:

|  |                                    |                         |
|--|------------------------------------|-------------------------|
| _____<br>(Name of Transferee)  | _____<br>Address                   |                         |
| <p>_____ Class ____ partnership units ("Units") in the Partnership registered in my name and constitute the above-named transferee as a substitute Unitholder to the extent of the said number of Units and I agree to execute and deliver to the General Partner any documents required to effect a valid transfer of the said Units or which are necessary or advisable, in the opinion of the General Partner, to preserve the status of the Partnership as a limited partnership. I agree that the power of attorney previously granted to the General Partner will be effective for the purpose of executing and filing all certificates, amendments and other instruments necessary to give effect to this transfer.</p> |                                    |                         |
| <p>Dated at _____, Province/Territory of _____, this _____ day of _____, 199_____.</p>   |                                    |                         |
| _____<br>(Guarantor)   | _____<br>(Signature of Unitholder) |                         |
| _____<br>(Surname)   | _____<br>(Given Name)              | _____<br>(Please Print) |
| _____<br>(Address — No Post Office Box)  |                                    |                         |
| _____<br>(City, Province, Postal Code)   |                                    |                         |

#### Notes:

1. The signature of the Unitholder must be guaranteed by a Canadian chartered bank, a Canadian trust company or a member of the Investment Dealers Association of Canada or the Toronto or Alberta stock exchanges.
2. This transfer must be for a whole Unit or for whole Units. Transfers of fractional or partial Units will not be recognized or entered in the register of the Partnership.

The above-named transferee accepts this transfer and agrees to be bound, as a party to and as a Unitholder in the Partnership, by the terms of the Agreement, as from time to time amended as if he himself, or she herself, had personally executed the Agreement, and hereby ratifies, for all legal purposes, execution of the Agreement on his/her behalf and all actions taken on his/her behalf pursuant thereto. The transferee declares that he/she (and any beneficial owner of the units to be registered in his/her name) is not a "non-resident", or a person an interest in which would be a "tax shelter investment" or, if a partnership, it is a "Canadian partnership", in each case within the meaning of the *Income Tax Act* (Canada), or proposed amendments thereto, or a present or former direct or indirect shareholder of Koch Industries, Inc. ("Koch Industries") or an associate or affiliate of a present or former direct or indirect shareholder of Koch Industries (for these purposes the terms "associate" and "affiliate" do not include Koch Industries, the General Partner, the Partnership or any direct or indirect subsidiary of Koch Industries), and he/she has the capacity and competence and, if a corporation, it has the necessary corporate authority, to execute this transfer and to enter into the Agreement.

In consideration of the General Partner accepting this transfer and conditional thereon:

- a. the transferee requests admission as a substitute Unitholder and agrees to be bound as a Unitholder in the Partnership by the terms of the Agreement as from time to time amended and in effect and the transferee hereby expressly ratifies and confirms the power of attorney given to the General Partner in Section 2.11 therein;

- b. the transferee hereby irrevocably constitutes and appoints the General Partner, with full power of substitution, as his/her true and lawful attorney and agent, with full power and authority in his/her name, place and stead to execute and deliver, for and on his/her behalf, the Agreement, the Certificate and any amendments thereto; and
- c. the transferee consents to the General Partner, on behalf of the Partnership, applying for orders from relevant securities regulatory authorities exempting it from any requirements to hold annual meetings of Partners.

The power of attorney granted herein and in the Agreement is irrevocable and is a power coupled with an interest, continues despite the mental incompetence of the transferee, survives the death or disability of the transferee and survives the assignment by the transferee of the whole or any part of the interest of each such transferee in the Partnership and extends to the heirs, executors, administrators, successors, assigns and other legal representatives of such transferee, and shall survive the subsequent legal incapacity of such transferee and may be exercised by the General Partner on behalf of the transferee in executing such instrument with a single signature as attorney and agent for him/her. The transferee agrees to be bound by representation or action made or taken by the General Partner pursuant to such power of attorney and hereby waives any and all defences which may be available to contest, negate or disaffirm the action of the General Partner taken in good faith under such power of attorney. In accordance with the *Powers of Attorney Act* (Alberta), the *Powers of Attorney Act* (Ontario), the *Powers of Attorney Act* (British Columbia), *The Powers of Attorney Act, 1996* (Saskatchewan), *The Powers of Attorney and Mental Health Amendment Act* (Manitoba), the *Powers of Attorney Act* (Nova Scotia), the *Powers of Attorney Act* (Prince Edward Island) and the *Enduring Powers of Attorney Act* (Newfoundland), the transferee declares that these powers of attorney may be exercised during any legal incapacity or mental infirmity on his/her part.

Under the *Powers of Attorney Act* (Alberta), an enduring power of attorney granted by an Alberta resident must incorporate the explanatory notes set out in such Act and must be accompanied by a certificate of legal advice, signed by a lawyer who is not the attorney or the attorney's spouse.

Unless otherwise indicated, capitalized terms used herein shall have the meaning ascribed thereto in the Partnership Agreement (the "Agreement") dated October 9, 1997 whereby the Partnership was formed.

The transferee accepts that this transfer form and power of attorney, the Partnership Agreement and related documents be in the English language only. Le cessionnaire accepte que ce formulaire de transfert et cette procuration, ainsi que toute communication afférente à son intérêt dans la société ne soient rédigés qu'en anglais.

Dated at \_\_\_\_\_, Province/Territory of \_\_\_\_\_, this  
\_\_\_\_\_ day of \_\_\_\_\_, 199\_\_\_\_.

\_\_\_\_\_  
(Guarantor)

\_\_\_\_\_  
(Signature of Transferee)

\_\_\_\_\_  
(Surname) (Given Name) (Please Print)

\_\_\_\_\_  
(Social Insurance Number)

\_\_\_\_\_  
(Mailing Address — No Post Office Box)

\_\_\_\_\_  
(City, Province, Postal Code)

## DIRECTION

(To be used where the Unitholder wishes Class A Units he/she is entitled to receive to be registered in the name of his/her dealer or broker firm or the firm's nominees. Please consult with your dealer or broker to confirm the appropriate name and address to be inserted below.)

To: \_\_\_\_\_  
(Insert name of dealer or broker firm or the firm's nominees)

\_\_\_\_\_  
(Insert address of dealer or broker firm or the firm's nominees)

### Re: Koch Pipelines Canada, L.P. (the "Partnership")

Enclosed is a Transfer and Power of Attorney Form in respect of Class A limited partnership units (the "Class A Units") which I have acquired. The Transfer and Power of Attorney Form has been signed by me, with signature guaranteed, but with the name and address of the transferee left blank. I have directed the Partnership to deliver to you the Units to be issued to me so that you may seek the re-registration of such Units in your name or in the name of your nominee (including The Canadian Depository for Securities Limited).

You are hereby directed to insert your name and address or the name and address of your nominee on the Transfer and Power of Attorney Form in the section to be completed by the transferor, to complete the section to be completed by the transferee and to deliver the properly completed Transfer and Power of Attorney Form to the registrar and transfer agent of the Units, in order to re-register my Units in your name (or that of your nominee) so that you (or your nominee) will hold such Units on my behalf on the basis that I remain the beneficial owner thereof.

Dated at \_\_\_\_\_, Province/Territory of \_\_\_\_\_, this  
\_\_\_\_\_ day of \_\_\_\_\_ 199\_\_\_\_.

\_\_\_\_\_  
(Signature Guarantee)  
(Canadian chartered bank, Canadian trust company or  
member, Investment Dealers Association of Canada or a  
member of the Toronto or Alberta stock exchanges)

\_\_\_\_\_  
(Signature of Depositing Unitholder)

\_\_\_\_\_  
(Surname)

\_\_\_\_\_  
(Given Name)

\_\_\_\_\_  
(Please Print)

\_\_\_\_\_  
(Social Insurance Number)

\_\_\_\_\_  
(Mailing Address — No Post Office Box)

\_\_\_\_\_  
(City, Province, Postal Code)







**K KOCH**   
PIPELINES CANADA, L.P.

